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Energy [1]

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Mary Tuck
1982-45

February 16, 1992

To: Katie
From: Pam

Talking Points on Economic Package:

o **Energy Efficiency**

- Weatherization programs will get an additional $50 million in FY 1993. States will be required to match federal funds to gain a grant. With the state funds, 62,5000 additional homes will be weatherized.

- The Energy Policy Act required new research programs and demonstrations/commercialization of renewable and conservation technologies. The package includes a total of $1.4 billion in funding above the baseline for these projects.

- "Model Projects" in Industrial and Energy Conservation: $20 million in cost-shared federal funding will be available for model projects that demonstrate or accelerate the commercial acceptance of advanced energy saving technologies and products.

- Federal Energy Management: The Administration will spend nearly $2 billion between FY 94-97 to increase energy efficiency in federal buildings.

o **Alternative Fueled Vehicles**

- The purchase and/or conversion of gasoline powered vehicles will be funded for an additional $30 million.

o **Interior Cost Savings Projects**:

- Implement a federal irrigation water surcharge. This proposal would authorize a per acre-foot surcharge on water sales to reclamation projects throughout the West. Revenue from the surcharge would be deposited into a special fund for use in mitigating irrigation-caused adverse impacts on fish and wildlife. (Save $15M)

- increase grazing fees (Save $35 M). The amount to be raised will be negotiated with DOI and USDA.

- permanently extend hardrock mining holding fees and royalties - save $357M. This is an extension of last year's legislation passed by Congress that authorized a $100 per claim holding fee on all hardrock claims on Federal lands (previously only $2-$5 was needed to buy the claim) for one year --now the Administration would like to permanently extend the fee. The Administration is seeking the extension of this law as well as a 12.5% royalty fee on all minerals discovered/extracted.

- phaseout below-cost timber sales - $28 million. The exact forests have not been designated, but any forest with a three-year run of below cost timber sales is likely to be targeted. The phaseout will be stretched over three years.

o **EPA stimulus projects**:

- Expand EPA voluntary green programs $23M → Green Lights, Computers, etc.
- Watershed Resource Restoration $47 M
- Wastewater Treatment SRF $845M

o **Environmental Infrastructure**:

- In USDA, $188M and DOI, $349M for enviro infrastructure such as trail building, parks, etc.

o **OTHER**

USDA

- Increase Rural Water and Wastewater Loans by $470 million
- Increase Funds for Watershed Projects $47 million
- Rural Development Administration loans $1.1 billion
- Forest for the Future $30 M
- Tree Planting $41M
- National Research Initiative on food safety & sustainable ag - $30 M
- Forestry Research Initiatives $20
- Wetlands Reserve Program - maintained at levels of $373 for FY 94

DOI

- Historic Preservation funding $23 M

EPA

- Drinking water SRF $600 M
- Clean Water SRF $1,200M
- Completion of Wastewater Treatment Grants $1.9 B in savings
- Increase Private sector financing of Superfund $109 M

ENERGY TAX
→ EITC
→ WEATHERIZATION
→ LOW Income Home Energy Assistance Plan (LIHEAP)
→ ITC & R&D tax credits ⇒ more efficient technologies.

February 16, 1993

TO: AGJ
FROM: MER
RE: Energy tax message for enviros briefing

**GENERAL**: It's important for the environmentalists to understand how critical it is for them to frame this tax in terms that will increase its support. Which means adding to their language a sense of **context and economic fairness.**

In talking with the leaders of the environmental groups today, you should make this case to them. That is, in talking about the tax, they should talk about its environmental benefits and more.

Celinda's internals make clear that if this is simply about raising revenues, we face strong opposition (75 percent oppose an energy tax that will increase utility bills; 91 percent resent an energy tax because it will increase their bills and 81 percent because it hits the poor hardest). The environment message sells, but it isn't enough.

**MESSAGE**:

o **PUT IT IN CONTEXT** of the overall economic plan: higher taxes on the rich, on corporations; cuts in government spending and wasteful perks; tax breaks for working poor families and increased funds for weatherization for low income homes to protect low income families from the impact of the tax; and, the fact this energy tax is phased in over three years;

o **REDUCE POLLUTION AND INCREASE CONSERVATION:** there's a reason for this tax that goes beyond deficit reduction -- it's the only tax that will help reduce pollution, protect and improve the environment, and increase energy conservation -- important long term goals for America.

o **TARGET REVENUE** by emphasizing that these funds will go to deficit reduction and, perhaps more importantly, to change behavior for the country's long-term good;

NOTE: On the question of competitiveness, that is, the argument that higher energy costs will make our businesses less competitive, the answer is that the energy tax must be taken in the context of the broader economic package which gives businesses an incentive to invest, to create jobs, and helps by accelerating the development of energy efficient technologies.

####

February 15, 1993

MEMORANDUM FOR THE VICE PRESIDENT

FROM KATIE

SUBJECT: MEETING WITH ENVIROS ON STIMULUS PACKAGE

You will be meeting again with the heads of the largest enviro groups to brief them on the environmental aspects of the stimulus package. Attendees will include:

Jay Hair, NWF
George Frampton, Wilderness Society
Jim Maddy, LCV
Fred Krupp, EDF
Jane Perkins, FOE
John Adams, NRDC
Rodger Schlickheisen, Defenders
Johnathan Lash, WRI
Ben Chavis, United Church of Christ

You will want to extensively brief them on the energy tax options.

Talking Points on energy tax:

* The administration is proposing a modest broad-based energy tax designed to

    * reduce the deficit and thereby stimulate private investment;

    * make our economy more energy efficient;

    * improve the environment; and

    * enhance national security by reducing energy imports.

* The tax is based on the energy content of fuels (called a Btu tax for "British thermal units") along with a national security premium on oil to discourage imports and help encourage domestic natural gas. The tax is levied on energy sales to industries and utilities. The energy tax will be phased in over three years, at which point it will provide $22 billion dollars annually for the treasury. (The phased-in supplemental petroleum tax is delayed for one year for home heating oil, in order to protect consumers in the Northeast who heat homes with oil.)

* Because it applies to all energy products, the tax will not unduly burden any region, industry, or consumer segment.

The U.S. spends about $500 billion on energy every year, so that a tax generating $22 billion in net revenues will not seriously increase overall energy expenditures. When fully phased in:

* Gasoline prices would increase by about 8 cents, a 6% increase;

* Electric bills would increase by less than 4%; and

* Natural gas prices would increase by about 4%.

* Home heating oil prices will increase by about 8%, but the full impact will be delayed by one year.

* Annual energy expenditures by a family of four with $40,000 per year in income are about $2,600. The tax would increase expenditures by about $125 per year.

* Other elements of the Administration energy plan makes the entire revenue package progressive -- that is, people with lower incomes pay much smaller amounts than do higher income persons.

  * Expanded earned income tax credit will reduce overall tax burden of lower income families;

  * Expanded low-income energy assistance programs will target lower income families in regions of higher energy prices

  * Additional Food Stamp Assistance will further help lowest income families.

  The Administration has ensured that those persons who can afford to pay a little extra for energy will help reduce the deficit, while protecting those least able to contribute.

* Because the energy tax is phased in, relatively small, and based primarily on energy content, the tax will encourage overall energy efficiency, while avoiding significant shifts in fuel markets which would pit regional interests against each other.

* The energy tax combined with other measures will enhance American competitiveness:

  * Reducing the deficit will lower stubbornly high long-term interest rates;

  * Targeted investment tax credits will increase private investment;

* Permanent R&D tax credit will spur private sector innovation;

* Expanded energy conservation programs at EPA and DOE will help industrial and commercial energy users to help control energy costs.

* Incentives for expanded use of natural gas will encourage the use of this domestic clean energy source.

* Manufacturing extension programs will emphasize energy efficient technology for small and medium sized firms.

* American companies will still face much lower energy prices than our main economic rivals in Europe and Japan.

* The energy tax will reduce dependence on foreign oil, reduce the U.S. trade deficit, enhance national security, and restore U.S. leadership role in international environmental protection:

  * Reduction in oil use would come primarily from imports, most of which comes from unstable regions of the globe;

  * U.S. oil imports account for over half of our trade deficit;

  * Since the 1950s, the U.S. has spent over a trillion dollars to ensure the free flow of oil from the Persian Gulf.

  * The U.S. can regain international leadership role in responding to the threat of climate change. An energy tax would give the U.S. strategic leverage in negotiating strong international environmental commitments.

  * The European Community has indicated that it would follow the U.S. lead and tax pollution-causing energy use in their member countries.

* The environmental benefits from energy conservation include reduces emissions of carbon dioxide (the most important greenhouse gas), automobile emissions that cause urban smog, and emissions from factories and utilities that contribute to acid rain. The projected reductions in carbon dioxide will help the U.S. meet international goals for greenhouse gas reductions.

* The adoption of an energy tax represents a vigorous commitment to deficit reduction, fairness, competitiveness, energy conservation, and global environmental protection. Combined with other essential elements in President Clinton's economic plan, the overall package will ensure that the economy will create jobs as we pull out of recession now, and will invest appropriately so that the U.S. standard of living will increase as we enter the 21st century.

Note: Attached are OMB documents on major items in the environmental budget. I am also attaching a memo done for me by Hazel O'Leary's chief of staff that outlines some of the important conservation and efficiency investments in the package.

INTERNATIONAL INITIATIVES (these are all approximate figures):

Climate Change Country Studies to implement Framework Convention on Climate Change: $12.5 million in FY'94

Montreal Protocol Fund: $28.5 million for FY'94

Global Environment Facility: $50 million in FY'94

Forests for the Future: $150 million in FY'94

Population: thru AID and UNPF: $400-500 million in FY'94

UNEP: 22 million

This paper will provide you with a general description of the elements pertaining to DOE included in the stimulus and investment programs. Please keep in mind that the information is somewhat general, given the lack of available information.

Regarding outreach, as we discussed today on the budget and energy tax issue, we should communicate the information to the conservation, renewable and environmental communities, industry, Congress and the states. As more information is provided, we can develop a more specific paper for distribution. As we discussed, we should meet with the groups which follow on Thursday and Friday to discuss energy tax and budget packages. What follows are the groups and those responsible for initiating the meeting.

| | |
|---|---|
| Electric, gas, oil, coal | Rich Rosenzweig |
| Conservation, renewable energy, and environmental | Rich Rosenzweig/Katie McGinty |
| Senate energy and environment committees | Katie McGinty |
| House Energy and Commerce Committee | Rich Rosenzweig |
| States | Rich Rosenzweig |
| Consumers | Rich Rosenzweig |

We can further discuss this at the public liaison meeting on Monday.

## Budget Facts

MESSAGE: The initiatives which follow begin to address the Administration's commitment to encourage efficiency, renewables and natural gas while using the Department's assets to encourage long-term economic growth.

**Stimulus Package**

- <u>Weatherization</u>: ($50 million in addition to the FY 1993 appropriation of $185 million.) States will be required to match federal funds to gain a grant. With the state funds, 62,500 additional homes will be weatherized, reducing energy use and putting low-income people to work.

- <u>Funding for "Model Projects" in Building and Industrial Conservation</u>: There will be a one-time solicitation which will provide $20 million in cost-shared federal funding (50%) for model projects that demonstrate or accelerate the commercial acceptance of advanced energy saving technologies and products. Such model demonstrations, particularly in the building industry, will create jobs and lead to energy efficiency and reduce energy use in the building sector.

* analysis re: baseline
* FY 94 –
* energy bill comparison.

- Increased Spending on Non-Defense Cooperative Research and Development Agreements at the Labs (CRADAs): CRADAs are a mechanism by which labs can work with industry to transfer technology developed in labs to the private sector. The money goes to the labs to pay for R&D in the CRADA. The laboratory work is proprietary to the private sector which holds the patent rights. The stimulus initiative provides $50 million for the CRADA initiative. This will allow 250 lab scientists to work with industry to develop new technologies. In addition, $50 million appropriated to defense labs in FY 1993 for R&D of nuclear weapons will be redirected to CRADAs for dual-use technologies.

- Alternative Fuel Vehicles (AFVs): This initiative provides increased funding for acquisition of AFVs for the fleet and for conversion of existing vehicles. The initiative proposes $30 million in FY 1993 for the purchase and/or conversion of petroleum- based gasoline powered vehicles to AFVs. The increased funds in the Administration proposal will be used to accelerate the schedule of purchases of new vehicles and convert existing vehicles. This meets an important campaign commitment, and as important, it will create a market for AFVs and reduce pollution and oil use in the transportation sector, which accounts for 70% of U.S. oil use.

**Investment Package**

- Weatherization: This is the same program listed in the stimulus package section. However, the program will receive an additional $100 million per year from FY 1994-97. With 1:1 leveraging of state and federal funds, it is estimated that an additional 500,000 homes will be weatherized over the projected number from FY 1994-97.

- Increased Funding for Renewable Energy and Conservation Programs: The Energy Policy Act of 1992 requires establishment of new efficiency standards, authorization for new research programs, and demonstration and commercialization of renewables and conservation. The initiative includes $200 million in FY 1994, increasing to $500 million in FY 1997 for a total of $1.4 billion over the baseline. The funds will be distributed to four areas, solar and renewable energy, industrial transportation and building conservation R&D. These initiatives will provide major energy, environmental and economic benefits.

- Federal Energy Management: The Energy Policy Act of 1992 requires that federal agencies reduce energy consumption by 20% per square foot in 2000. The Administration will spend nearly $2.0 billion between FY 1994-97 to achieve this goal. This initiative will reduce energy use and the government's energy bill. The four largest energy using agencies (DOD, DOE, GSA, and VA) will receive increased direct funding for in-house energy management programs. A fund will be established for the other agencies at DOE for energy efficiency projects.

- Increased Natural Gas Use: There will be increased R&D spending that will help to ensure that enhanced R&D will be relevant to the needs of the industry and marketplace. Natural gas R&D will be increased by $22 million in FY 1994 to an additional $119 million in FY 1997 from the baseline.

- Increased Funding for CRADAs: This is the same program as mentioned in the stimulus package section. In an attempt to begin fulfilling its technology transfer mission as assigned by the National Competitiveness and Technology Transfer Act, DOE has been attempting to develop cooperative agreements with the private sector for joint projects. There are more requests for funding than can be accommodated, given current funding levels. To accommodate these requests, DOE will receive an additional $50 million per year from FY 1994-97.

- Large Science Projects:

  o *Advanced Neutron Source*--This facility would fund design and construction to produce isotopes for medical use, treatment and research, and to perform applied research utilizing neutron scattering. Industry, universities, and labs would be users. The heart of the facility would be a new research reactor which would have the most intense beams of steady state neutrons in the world. The proposal adds $437 million over the FY 1994-97 period.

  o *Superconducting Super Collider*--It is possible that the SSC will have benefits such as miniature electronic devices, high efficient motors and super fast surface transportation systems. The SSC is intended to answer fundamental question on the nature and origin of matter and energy. This high power proton collider will achieve energy levels needed to detect heretofore unseen particles and confirm or require fundamental rethinking of basic theories of physics. The SSC will help American science and scientists break into new frontiers of knowledge.

  Concems about SSC magnets, cost and schedule controls necessitate slowing down the rate of construction until these issues are addressed. This will add three years to the project and $1.8 billion. The U.S. is committed to the project and will seek foreign participation in the project. The proposal adds an additional $112 million in the base period.

15-Feb-93

# *Environmental Budget: Major Items*

(changes to baseline)

| | (dollars in millions) |
|---|---|
| ***Stimulus*** | **1993** |
| Wastewater Treatment State Revolving Funds (EPA) | 845 |
| Watershed Resource Restoration (EPA) | 47 |
| "Green" Programs (EPA) | 23 |
| Rural Water/Wastewater Loans and Grants (USDA) | 750 |
| Watershed Projects (USDA) | 47 |
| Nat. Res. Protection and Env. Infrastructure (USDA) | 188 |
| Nat. Res. Protection and Env. Infrastructure (Interior) | 349 |
| Historic Preservation Repair and Maintenance (Interior) | 23 |
| ***TOTAL STIMULUS (budget authority)*** | 2,249 |
| ***Investment*** | **1994** |
| Drinking Water State Revolving Funds (EPA) | 600 |
| Clean Water State Revolving Funds (EPA) | 1,200 |
| Environmental Technology (EPA) | 36 |
| Watershed Resource Restoration (EPA) | 30 |
| "Green" Programs (EPA) | 15 |
| Rural Water/Wastewater Loans and Grants (USDA) | 300 |
| Forests for the Future (USDA) | 30 |
| Tree Planting Initiative (USDA) | 41 |
| National Research Initiative (USDA) | 30 |
| Forestry Research Initiative (USDA) | 20 |
| Wetlands Reserve Program (USDA) | -- |
| Natural Resource and Environ. Infrastructure (Interior/USDA) | 239 |
| Recreational Land Acquisition and State Grants (LWCF) | -- |
| ***TOTAL INVESTMENT (budget authority)*** | 2,541 |
| ***Savings*** | **1997** |
| Completion of Wastewater Treatment Constr. Grants (EPA) | 1,947 |
| Private Sector Financing of Superfund Cleanups (EPA) | 109 |
| Federal Irrigation Water Surcharge (Interior) | 15 |
| Grazing User Fees (Interior/USDA) | 35 |
| Hardrock Mining Holding Fees and Royalties (Interior) | 357 |
| Phaseout Below-Cost Timber Sales (USDA) | 28 |
| Reduce or Stretch-Out Water Project Constr. (Interior/Army) | 92 |
| Increased Inland Waterway User Fees (Army) | 460 |
| ***TOTAL SAVINGS (outlays)*** | 3,043 |

February 15, 1993

# Environmental Budget: Major Items
# (changes to baseline)

## I. Stimulus

### Environmental Protection Agency

Wastewater Treatment State Revolving Funds -- ($845M in 1993 BA)

This proposal would provide $845 million in capitalization grants to State Revolving Funds (SRFs), which make low-interest loans to municipalities for construction of sewage treatment facilities. This would accelerate completion of an $18 billion wastewater treatment grant authorization that is scheduled to end in FY 1994. The funding would supplement $2.5 billion in FY 1993 enacted funding for EPA wastewater treatment grants.

Watershed Resource Restoration -- ($47M in 1993 BA)

This proposal would supplement current funding with an additional $47 million for non-point source grants under Section 319 of the Clean Water Act. Non-point source pollution, such as runoff from farms, mining sites and city streets, is now the largest cause of pollution in our Nation's waters. Reductions in non-point source pollution will help restore watersheds and estuaries, leading to increased numbers of fish and other aquatic life, and improving fishing and recreational opportunities in urban, suburban, and rural areas.

Expand EPA's Voluntary "Green" Programs -- ($23M in 1993 BA)

This proposal would expand EPA's voluntary "Green" programs by $23 million in FY 1993 over the current $8 million funding level. During the past two years, EPA launched its "Green Lights" program to encourage Fortune 500 companies to convert profitably into more energy-efficient lighting, which will reduce electricity generation and reduce greenhouse gas emissions. These programs can be expanded to include energy-efficient industrial motors, heating/ventilation/air conditioning (HVAC), residential clothes washers and dryers, and heat pumps.

**Department of Agriculture**

Increase Rural Development Administration (RDA) Rural Water and Wastewater Loans by $470 Million, and Grants by $280 Million

This proposal increases the RDA FY 1993 loan authority from $600 million to $1.1 billion and its grant authority from $390 million to $672. To comply with clean water standards set by EPA, rural America's water and wastewater needs total roughly $10 billion by the year 2000. Often many small, poor, rural communities are unable to meet these clean water and wastewater standards without Federal assistance.

Increase Funds for Watershed Projects (SCS) -- ($47M in 1993 BA)

This proposal would provide an additional $47 million in FY 1993 to help reduce a backlog of Soil Conservation Service (SCS) emergency watershed projects that are currently eligible for Federal assistance. These projects address local watershed problems caused by soil erosion, sedimentation, and flood damage. SCS projects may also improve water quality and supply in rural areas.

Natural Resource Protection and Environmental Infrastructure Initiative -- ($188 million in 1993 BA)

This proposal would provide $188 million in FY 1993 to protect and rehabilitate America's inventory of natural and rural assets, restore facilities that protect these resources, and improve public access to them. This funding would complete the inventory of ready-to-go resource protection projects, facility maintenance, rehabilitation and construction and other similar projects that stimulate economic growth and employment in rural areas.

### Department of the Interior

Natural Resource Protection and Environmental Infrastructure Initiative -- ($349M in 1993)

This proposal would protect and rehabilitate America's inventory of natural and cultural assets, restore the facilities that protect these resources, and improve public access to them. This funding would complete the inventory of ready-to-go resource protection projects, facility maintenance, rehabilitation and construction and other similar projects that stimulate economic growth and employment in rural and urban areas. The work would be located at resource areas managed by the Department of the Interior (National Park Service, Fish and Wildlife Service, Bureau of Land Management, and Bureau of Indian Affairs). Funds will supplement existing National Park Service operating programs such that facilities or services previously scheduled to be closed in 1993 will remain open.

Historic Preservation Funding for Repair and Deferred Maintenance Projects -- ($23M in 1993 BA)

The Administration proposes $23 million to fund a backlog of brick and mortar rehabilitation projects, emergency surveys, engineering reports, and deferred maintenance at National Trust for Historic Preservation Museum properties across the Nation, and other priority State and tribal projects.

# II. Investment

### Environmental Protection Agency

Drinking Water State Revolving Funds -- ($600M in 1994 BA; $1B per year 1995-97)

This proposal would provide $1 billion per year in new capitalization grants to State Revolving Funds in FY 1995-97 for the purpose of making low-interest loans to help municipalities comply with Safe Drinking Water Act (SDWA) requirements. EPA estimates that States and localities will need to invest $10 billion in drinking water infrastructure through 1998 to meet SDWA requirements. In the past, the Federal

Government has not provided funding to meet the capital costs of these SDWA requirements other than in rural areas.

Clean Water State Revolving Funds -- ($1,200M in 1994 BA; $2B per year 1995-97)

This proposal would provide $2 billion per year in FY 1995-97 under a new authorization for capitalizing Clean Water State Revolving Funds (SRFs). These SRFs would make low-interest loans to municipalities for construction of projects to address water quality problems. These funds would help municipalities comply with recent requirements for stormwater control and help implement management plans for restoring estuaries.

Increase Investment in Environmental Technology -- ($36M in 1994 BA; $625M total for 1995-97)

This proposal would increase funding for environmental engineering and technology development by $36 million in FY 1994, a total of $625 million through 1998, and a total of $1.85 billion over nine years. The focus of this initiative would be long-term research and pollution prevention by EPA, other Federal agencies, and the private sector. The goal is to develop more advanced environmental systems and treatment techniques that can yield environmental benefits and increase exports of "green" technologies.

Watershed Resource Restoration -- ($30M in 1994 BA; $50M per year 1995-97)

This proposal would double the current funding level of $50 million annually for non-point source grants under Section 319 of the Clean Water Act. Non-point source pollution such as runoff from farms, mining sites and city streets, is now the largest cause of pollution in our Nation's waters. Reductions in non-point source pollution would help restore watersheds and estuaries, leading to increased numbers of fish and other aquatic life, and improving fishing and recreational opportunities in urban, suburban, and rural areas.

Expand EPA's Voluntary "Green" Programs -- ($15M in 1994 BA; $25M per year 1995-97)

This proposal would provide an additional $25 million annually for EPA's voluntary "Green" programs in FY 1995-1997. During the past two years, EPA launched its "Green

Lights" program to encourage Fortune 500 companies to convert profitably into more energy-efficient lighting, which will reduce electricity generation and greenhouse gas emissions. These programs can be expanded to include energy efficient industrial motors, heating/ventilation/air conditioning (HVAC), residential clothes washers and dryers, and heat pumps.

**Department of Agriculture**

Increase Rural Development Administration (RDA) Rural Water and Wastewater Loans by $300 Million, and Grants by $200 Million Per Year for 1995 to 1997 -- (1994 Loans -- $180M; 1994 Grants --$120M)

This proposal would increase RDA loan authority from $600 million to $780 million and its grant authority from $390 million to $510 million FY 1994. Without Federal assistance, small water and wastewater systems face extraordinarily large increases in water and sewer charges associated with evolving environmental standards. To comply with clean water standards set by EPA, rural America's water and wastewater needs total roughly $10 billion by the year 2000. Often many small, poor, rural communities are unable to meet these clean water and wastewater standards without Federal assistance.

Forests for the Future -- ($30M in 1994 BA; $50M per year 1995-97)

Recognizing the importance of global forests, the budget would propose an investment of $50 million per year for 1994-1997, towards the international goal of reducing world-wide deforestation. At the 1992 Rio "Earth Summit", the U.S. proposed that all countries join in doubling international forest assistance. This investment would be a downpayment towards the commitment to fund initial partnership activities with both foreign nations and domestic and international non-governmental organizations.

Tree Planting -- ($41M in 1994 BA; $263M 1994-1997)

This proposal would provide $41 million for an expanded tree planting initiative. The program has two principal components: a rural initiative providing cost-sharing to non-industrial private forest land owners for tree planting; and an urban initiative focusing on technical assistance and community grants to promote urban tree planting and forestry practices. Reforestation and stand improvement on these lands can result in increased environmental benefits such as removing more carbon dioxide from the air.

National Research Initiative (NRI) Grants -- ($30M in 1994 BA; $480M 1995-97)

The Nation faces major challenges to ensure the food supply's safety and quality, sustain natural resources, and continue the competitiveness of U.S. agricultural products in global trade. In order to meet these challenges, this proposal would provide $180 million in 1994 to fund an additional 500 research projects for food safety, sustainable agricultural production, and decreased environmental impact.

Forestry Research Initiative -- ($20M in 1994 BA; $287M 1995-97)

This proposal would provide $300 million over four years to the Forest Service to allow it and other USDA research agencies to increase the breadth and depth to which forestry research areas are investigated. The proposal would provide the necessary information to help the Nation develop sound forest-related policies that would both provide resources to meet ever-increasing demands from the population and sustain forest ecosystems.

Wetlands Reserve Program (WRP)

Full funding of the Wetlands Reserve Program would be maintained, allowing one million wetlands acres to be enrolled under permanent easements by the end of 1995: $373 million in 1994 and $414 million in 1995 would be included for the WRP.

**Departments of the Interior and Agriculture**

Natural Resource Protection and Environmental Infrastructure Initiative -- $239M in 1994 BA; $1,710M total 1994-97)

The proposal would provide $239 million in 1994 to protect and rehabilitate America's inventory of natural and cultural assets, restore the facilities that protect these resources and improve public access to them. This funding would complete the inventory of read-to-go resource protection projects, facility maintenance, rehabilitation and construction and other similar projects that stimulate economic growth and employment in rural and urban areas. Interior bureaus afected are the National Park Services, Fish and Wildlife Service, and Bureau of Land Management.

Federal Recreational Land Acquisition and State Grants (Land and Water Conservation Fund, LWCF) at FY 1994 baseline level (about $260 million).

# III. Savings

**Environmental Protection Agency**

Completion of Wastewater Treatment Construction Grants -- ($1.9B in 1997 outlays savings)

With the $846 million in wastewater stimulus funding provided in FY 1993, the $18 billion authorization under the 1987 Water Quality Act, which was designed to end Federal assistance, would be virtually completed a year ahead of schedule. As these loans are repaid, States would be able to make a new round of loans due to the self-sustaining nature of the State Revolving Funds. The Budget also proposes (under Investment) a new $2 billion annual authorization for capitalizing Clean Water State Revolving Funds for low-interest loans to municipalities to address water quality problems.

Increase Private Sector Financing of Superfund Cleanups -- ($109M in 1997 outlay savings)

More aggressive use of Superfund's enforcement mechanisms could achieve even greater private financing of these cleanups without affecting protection of human health and the environment. The proposal would preserve Federal Superfund money only for sites where there are no viable private parties to undertake the cleanup to ensure that the greatest number of sites can be cleaned up within the limited funding available in the Superfund trust fund.

**Department of the Interior**

Implement a Federal Irrigation Water Surcharge -- ($15M in 1997 outlay savings)

This proposal would authorize a per acre-foot surcharge on water sales to Reclamation projects throughout the West (except for the Central Valley Project in California, for which a similar surcharge was recently enacted). Revenue from the surcharge would be deposited into a special fund for use (subject to appropriation) in mitigating irrigation-caused adverse impacts on fish and wildlife. The surcharge would also encourage more rational water use that would reduce the harmful impacts of non-point source pollution.

Increase Grazing Fees -- ($35M in 1997 outlay savings)

This proposal would increase grazing fees on public lands as negotiated by the Secretaries of Interior and Agriculture, who would be given the flexibility to develop alternative approaches to the current formula.

Permanently Extend Hardrock Mining Holding Fees and Institute Hardrock Mining Royalties ($357M in 1997 outlay savings)

This proposal would permanently authorize charging a $100 per claim holding fee on all hardrock claims on Federal lands and would establish a 12.5 percent royalty to the gross value of the hardrock minerals extracted from mining claims on public lands. The claimant would be relieved of annual work requirements, which should increase flexibility on timing the development of claims. It would also reduce unnecessary ground disturbance to satisfy current law. The new royalty would be phased in over three years to reduce the impact on the mining industry and local communities. Receipts from hard rock mining royalties would be shared with the States where the mining occurs.

Phaseout Below-Cost Timber Sales -- ($28M in net 1997 outlay savings)

Timber sales from some National Forests do not cover the costs to the Government of making the timber available for sale. This proposal would gradually eliminate sales in those forests where timber-sale program costs exceed timber-sale revenue.

**Department of the Interior/U.S. Army Corps of Engineers**

Reduce or Stretch-Out Construction Funding for Low-Priority Water Projects -- ($92M in 1997 outlay savings)

This proposal would reduce or stretch-out funding for certain Army Corps of Engineers and Bureau of Reclamation water resources projects. These projects are often environmentally destructive.

**U.S. Army Corps of Engineers**

Phase in Increased Inland Waterway User Fees -- ($460M in 1997 outlay savings)

This proposal would increase the Federal fuel tax over several years to $1.00 in 1997. The revenue would be used to offset the cost of operating and maintaining the inland waterway system.

Wastewater and Drinking Water State Revolving Fund (SRF) Funding Summary

| | | Baseline | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | | |
| Wastewater Treatment | BA | 2,500 | 2,568 | 2,634 | 2,700 | 2,768 | 2,837 | | |
| | OL | 2,372 | 2,381 | 2,535 | 2,628 | 2,662 | 2,692 | | |
| | | Changes to Baseline | | | | | | 1994-97 | 1994-98 |
| | | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | Total | Total |
| Stimulus: | | | | | | | | | |
| Complete SRF Wastewater | BA | +845 | -- | -- | -- | -- | -- | -- | -- |
| Authorization in FY 1993 | OL | +39 | +179 | +272 | +172 | +72 | +34 | +695 | +729 |
| NDD Savings: | | | | | | | | | |
| End Current Wastewater Grants | BA | -- | -2,418 | -2,484 | -2,550 | -2,618 | -2,687 | -10,070 | -12,757 |
| (except $150M/yr NAFTA) | OL | -- | -109 | -624 | -1,424 | -1,947 | -2,207 | -4,104 | -6,311 |
| Investment: | | | | | | | | | |
| Drinking Water SRF | BA | -- | +600 | +1,000 | +1,000 | +1,000 | +1,000 | +3,600 | +4,600 |
| | OL | -- | +24 | +172 | +440 | +692 | +840 | +1,328 | +2,168 |
| Clean Water SRF (Stormwater) | BA | -- | +1,200 | +2,000 | +2,000 | +2,000 | +2,000 | +7,200 | +9,200 |
| | OL | -- | +54 | +344 | +900 | +1,402 | +1,666 | +2,700 | +4,366 |
| Net Change: | | | | | | | | | |
| SRF Wastewater and | BA | +845 | -618 | +516 | +450 | +382 | +313 | +730 | +1,043 |
| Drinking Water | OL | +39 | +148 | +164 | +88 | +219 | +333 | +619 | +952 |
| | | Total | | | | | | | |
| SRF Wastewater and | BA | 3,345 | 1,950 | 3,150 | 3,150 | 3,150 | 3,150 | | |
| Drinking Water | OL | 2,411 | 2,529 | 2,699 | 2,716 | 2,881 | 3,025 | | |

Environmental Protection Agency

Question #1: What are the impacts of the wastewater and drinking water proposals?

Answer: There are three pieces to the proposal on EPA wastewater funding. The first is to provide $845 million in FY 1993 stimulus through additional capitalization grants to the State Revolving Funds (SRFs) in FY 1993.

The second piece is to eliminate current EPA wastewater funding (except $150 million per year to support NAFTA) reflecting the near completion in FY 1993 of the existing $18 billion authorization. This authorization was designed to end Federal assistance. Current funding consists of roughly $400 million in earmarked grants for seven cities (Boston, New York, Los Angeles, San Diego, Seattle, Baltimore, and Detroit) and $2 billion in capitalization grants for wastewater SRFs. This reduction is largely offset by the third piece of the proposal, which is the $2 billion per year in capitalization grants for Clean Water SRFs ($1.2 billion in FY 1994) under a new authorization that is included in the investment package.

The distinction between the $2 billion in wastewater SRFs funding cut in the savings package and the $2 billion in Clean Water SRF funding provided in the investment package is that the new funding (which requires legislation) will place a greater emphasis on stormwater control projects and will be eligible for a broader class of projects. Consequently, the main effect of the savings and stimulus proposals taken together is the elimination of the earmarked grants for the seven cities. These targeted grants have been strongly supported by the Congressional delegations of the affected States and opposed by the other States.

The drinking water proposal in the investment package provides $1 billion per year in EPA funding ($600 million in FY 1994) for construction projects to ease the burden on municipalities of complying with Safe Drinking Water Act requirements. This would require additional legislation as EPA currently has no authority to provide such assistance. The distribution of funds among States will need to be determined. It should also be noted that for exclusively rural areas, the Rural Development Administration, has received an increase of $752 million for water and wastewater loans and grants in the stimulus proposals and $500 million annually FY 1995-98 for water and wastewater grants and loans ($300 million in FY 1994) in the investment proposals.

To: marla

From: pam

Re: Quick WTI update.

On January 8, 1993, Region 5 EPA issued a test burn permit for WTI, allowing them to begin limited burning of hazardous wastes. The citizens' groups filed for a temporary restraining order that same day to prevent WTI from beginning the burn. On January 15, Judge Ann Alrich of a federal district court in Ohio issued the TRO. A hearing was set for Jan. 22 to determine a whether a preliminary injunction should be issued against the facility. That hearing was postponed until Feb. 7 to give the new administration time to prepare for the hearing. This injunction hearing will end Tues or Wed of this week. We have heard mixed reactions on what will happen. It's anyone's guess.

One of the points of the hearing that has incensed enviros is the testimony of an EPA scientist that revealed that EPA knew that a "preliminary assessment done by the Office of Research and Development does show that risks from beef and milk consumption can be 1,000 times higher than risks from inhalation near the WTI facility." EPA has in the past relied solely upon inhalation exposure to toxins as a basis for risk assessment in judging air borne sources of pollutants. Now, however, in this hearing, one question has become whether food-chain exposure should be considered as a health risk in these assessments. This has major repercussions throughout EPA, in all types of areas, if it is determined in this hearing that EPA is at fault for not using food-chain risks in their assessment of the WTI facility.

Related to the hearing and FYI, on Friday, Feb. 5, Carol Browner was to meet with these citizen's groups to hear their story before the Ohio hearing. However, part way thru the meeting, Browner recused herself from this issue when she found out that the group her husband works with, Citizen Action, was on record as opposing the incinerator. She turned her involvement over to Dick Morganstern, Acting Deputy Administrator (and a Reagan-Bush appointee). So the citizen's groups are upset about the implications of the fox guarding the henhouse...

On another point, a judge in Ark. ruled this weekend that a hazwaste incinerator in Jacksonville (you may remember this Vertac plant..) may not burn waste containing dioxin because the judge believes that the EPA standards for judging incinerator test burns are inadequate. Put simply, test burns at incinerators burn material OTHER than what will eventually be incinerated. I.e. they burn heating oil, old junk, whatever, so that the plant's equipment can be tested prior to actual operation. However, enviros have argued for years that these test burns give no indication for how good a job the incinerator will do on the hazardous stuff. This is especially the case with dioxin. The EPA believes that incineration destroys 99.9999% of the dioxin in hazwaste. However, enviros believe that 99.999999% should be destroyed in order to protect public health -- and that test burns are inadequate for testing this higher dioxin level. So they filed this suit in Ark. as a test case for making EPA prove that 1) 99.9999% destroyed is adequate and 2) test burns really work.

Recommendation from Katie on both these points: Al should not comment on on-going cases (could prejudice the outcome and therefore would be inappropriate). However, he should speak generally to the need for a re-assessment of how we determine risks. Sometimes we overestimate risks and our standards are too high; othertimes we fail to perceive the full magnitude of the risk we face (for example -- one chemical acting alone may not be dangerous. But, it may become dangerous when it comes into contact with another chemical and we don't currently test for these "synergistic" effects. -- Al should support scientific efforts to improve our risk assessment capabilities.

# Environmental Preview?

In what we fear may be a preview of Clinton administration environmental policies, Al Gore promised earlier this month to block a crucial EPA permit for a hazardous waste incinerator in East Liverpool, Ohio. On his Senatorial stationery, with his position as vice president-elect typed in, he cast his lot with a Greenpeace campaign explicitly billed as an effort to stop the incineration industry nationwide.

Von Roll, a 170-year-old Swiss company, designed, built and would operate the plant. It has already spent 13 years jumping through political hoops, winning the approval of every court and agency it came before. Indeed, the plant would be running today except that the company chose to add an expensive spray dryer so water wouldn't have to be discharged into the Ohio River. Von Roll is a world leader in antipollution technology and East Liverpool would be its North American showcase.

Greenpeace dreams that the town will become the "Waterloo of the incineration industry," according to Scott Sederstrom, an activist who parachuted in from Boston for the holy wars. Von Roll's early partners got fed up with the delays two years ago, and Von Roll bought them out. Now Greenpeace denounces this as a "corporate shell game" and thus a reason for canceling the plant's permits. Mr. Gore harrumphs that, of course, everything must be put on hold while the lapdog General Accounting Office investigates. Meanwhile, the company is losing $115,000 a day on top of the $160 million already invested.

Naturally, Mr. Gore couches his meddling as solicitude for "the health and safety of the residents." That didn't stop a busload of East Liverpool residents from trekking all the way to Washington last week to march in front of Greenpeace's offices. The protesters want the plant and the jobs it would bring.

The phrase "hazardous waste" is understandably worrisome to people, but plants like the one in East Liverpool aren't dealing with anthrax and nerve gas. They cremate things like dry-cleaning fluids, drugs that are past their expiration dates, and paint sludge from auto plants. This stuff is handled by hundreds of thousands of people every day. It rolls along the highways and railroads at all hours. It has to go somewhere, and burning it is the safest method of disposal.

What's more, anything coming out of Von Roll's smokestack is bound to be cleaner than the gunk billowing from dozens of other industrial plants in the Ohio Valley. Up the road, a single zinc smelter puts out 32,000 pounds of lead in one year. By helping to clean up after Ohio's paint, chemical and other industries, Von Roll will create new jobs and preserve old ones.

No doubt some of the local opponents are sincere chemophobes. Terri Swearingen quit her nurse's job and has poured $25,000 into the fight (her husband is a dentist). She goes to Washington at least once a week and has testified on Capitol Hill and made the TV rounds. "I spend every second of every day on this. There's nothing else in my life right now," she tells us, not sounding particularly unfulfilled. "The idea of incinerating anything, I'm opposed to."

Not everyone in East Liverpool can afford such exquisite standards. An old pottery-making capital, the town has slid downhill since the 1970s. Von Roll would mean hundreds of "good jobs at good wages," not to mention $2.3 million a year in tax receipts. And chasing out a foreign investor who's bringing state-of-the-art technology isn't exactly the best advertisement for Ohio, or for an administration pushing global competitiveness.

Greenpeace's agitprop has "scarred and divided this city," a local businessman, Larry Walton, told one reporter. "Greenpeace will move on after this, but we have to live here." The group's various outfits budgeted at least $8 million for the toxics jihad in 1990. Beth Newman from the Chicago office belly-landed in East Liverpool almost two years ago and has been busy improving the natives ever since. "Any facility that wants to spew four and a half tons of lead into a schoolyard deserves the death penalty," she preached to the local press. (Actually, the plant would emit less than 76 pounds of lead a year, about the same as a pre-1970s car.)

At bottom Greenpeace is theologically opposed to any form of waste disposal. Presumably then society would have to stop making waste, and Mother Earth would revert to a pristine, pre-industrial state. In other words, where most nature lovers recognize that technology is the only hope for solving most environmental problems, the Greenpeace Luddites turn this on its head. They see environmentalism as the club with which they'll beat down technology.

All through the campaign Mr. Gore bragged that pollution control would yield a jobs bonanza. On ABC this month he warned that "if we keep arguing among ourselves," Japan "will eat our lunch" in the battle for this global market. But the still-evolving Mr. Gore seems mainly to be "arguing" with himself these days. And it's hardly encouraging that on his first outing as the new administration's environmental czar, he's lined up with the antitechnology pagans in the environmentalist camp.

WALL STREET JOURNAL 12/22

75

WSJ 1-8-93

# Gore on a Von Roll

On Wednesday the state of Ohio gave approval for a test burn at a new, state-of-the-art hazardous waste incinerator in East Liverpool. All that remains is for EPA's Region Five to give the nod. This project has become a litmus test of the Clinton administration's direction on environmental matters, even before Mr. Clinton has moved into the Oval Office.

Von Roll, the builder, has spent $160 million and 13 years to get this far. Then Greenpeace seems to have visited Al Gore in a dream, and now the Veep-elect vows to torpedo the project. Caught in the middle is Region Five's Valdas Adamkus of EPA, the last career civil servant in a job that nowadays goes to political appointees. Next week his future boss and a Gore protege, Carol Browner, comes up for confirmation hearings. Mr. Adamkus is probably reaching for a Stress Tab about now.

Mr. Gore's spokesperson, Marla Romash, says the Veep-elect discovered the incinerator when campaigning in Ohio and has "spent months studying" the issue. Funny, EPA and its Ohio counterpart have spent *years* studying the issue, but haven't been asked to brief anybody on Mr. Gore's staff. Ms. Romash says there are "serious safety questions." Both EPA and Ohio's environmental agency give Von Roll top marks for safety. As one Democratic Senator big on environment tells us through an aide, "This issue isn't the winner it appeared to be."

Greenpeace doesn't like incinerators because they get rid of industrial waste, and Greenpeace would rather get rid of industry. Fixing on bogus legalisms, the group is painting Von Roll as a fly-by-night outfit. Mr. Gore has lent credibility to this cynical nonsense by ordering up a GAO "investigation" into the plant's ownership and licensing. Von Roll, founded in 1823, sees East Liverpool as a showcase for its world-class technology. The incentives are stacked in favor of a superb plant. "That gives me a lot of comfort that we've got an up-front operator," Ohio EPA's Paul Anderson tells us.

Incinerating toxics is better than letting them leach into the soil and water from landfills. According to U.S. News & World Report, Bill Clinton promoted incineration in Arkansas, and Hillary sat on the board of an incineration company. Mr. Gore himself has voted for laws that encouraged incineration and touted technology as a pollution solution and jobs-creator. Now, based on something he saw out the campaign bus window, he may sink hundreds of anti-pollution jobs in a state that just voted for his boss. Who's steering this environmental czar?

Wall St. Journal

# *Gore Vows to Block Incinerator Start-Up, Suggesting He'll Play an Activist Role*

By TIMOTHY NOAH

*Staff Reporter of* THE WALL STREET JOURNAL

WASHINGTON – Albert Gore, in a move highly unusual for a vice president-elect, pledged that the Clinton administration would block a hazardous-waste incinerator in Ohio from starting operation.

And in another sign that Mr. Gore is exerting strong influence on the Clinton administration's environmental agenda, the Tennessee senator was instrumental in blocking the nomination of Lawrence Summers, a Harvard economist who is chief economist of the World Bank, to be chairman of the Council of Economic Advisers. Mr. Summers, who now isn't expected to get the job, outraged environmentalists who got a copy of an internal World Bank memo that appeared to mock their concerns.

In a section of the memo titled "Dirty Industries," Mr. Summers wrote: "Just between you and me, shouldn't the World Bank be encouraging more migration of the dirty industries" to Third World countries? After the outcry, Mr. Summers argued in another memo that this and other provocative comments weren't meant to be taken literally, but rather were intended to create a "sardonic counterpoint," and should be read in their "original, highly ironic context."

Nobel Prize-winning economist Robert Solow, a Clinton supporter, said it would be a mistake to reject Mr. Summers because of the memo. "Larry Summers may have said something impolitic, but if you pursue what he was saying, it made sense." If he was rejected for that reason, Mr. Solow said, "we would be losing a very good CEA chairman for a very poor reason."

Mr. Gore's comments on the Ohio incinerator appeared in a news release issued yesterday by the "office of the vice president-elect," but bearing a U.S. Senate letterhead. In the statement, Mr. Gore said, "the new Clinton-Gore administration would not issue" a permit allowing the incinerator to conduct a "test burn" until certain health and safety questions are answered. The incinerator is owned by Von Roll America Inc., a unit of the Swiss company Von Roll, and is located in East Liverpool, Ohio.

The vice president-elect's stand against Mr. Summers and the incinerator are the strongest indications yet that Mr. Gore intends to push his strong environmental views as vice president.

Marla Romash, a spokeswoman for Mr. Gore, said that the senator's statement on the incinerator was cleared by President-elect Clinton. Mr. Gore believes "the facts in the case are compelling enough to warrant an investigation" by Congress's General Accounting Office, she said.

Environmentalists have long been critical of the Bush administration's Environmental Protection Agency and Ohio state regulators for allowing the waste facility, which is located 1,100 feet from an elementary school, to be built. Mr. Gore spoke out against the incinerator during two campaign visits to the site, and directed his Senate staff to investigate the matter.

But company spokeswoman Carol Cookerly said, "This plant and its emissions are far below levels that the EPA said are safe." In response to questions raised by Mr. Gore about alleged irregularities in EPA procedures for approving the plant, she said, "the EPA has handled this most complex issue carefully and thoroughly."

Rich Guimond, EPA deputy assistant administrator for solid waste, said the plant hasn't yet been issued an EPA permit to conduct a test burn, a procedure that allows regulators to assess whether a new incinerator's emissions meet federal standards.

Mr. Guimond also said the agency hasn't formally heard from Mr. Gore about the incinerator, but added that "the agency needs to be judicious" about blocking a test-burn permit, because any action by the EPA at this late date may invite legal action against the EPA by the company.

THE WALL STREET JOURNAL
12/8

February 15, 1993

MEMORANDUM FOR THE VICE PRESIDENT

FROM KATIE

SUBJECT: MEETING WITH ENVIROS ON STIMULUS PACKAGE

You will be meeting again with the heads of the largest enviro groups to brief them on the environmental aspects of the stimulus package. Attendees will include:

Jay Hair, NWF
George Frampton, Wilderness Society
Jim Maddy, LCV
Fred Krupp, EDF
Jane Perkins, FOE
John Adams, NRDC
Rodger Schlickheisen, Defenders
Johnathan Lash, WRI
Ben Chavis, United Church of Christ

You will want to extensively brief them on the energy tax options.

Talking Points on energy tax:

* The administration is proposing a modest broad-based energy tax designed to

    * reduce the deficit and thereby stimulate private investment;

    * make our economy more energy efficient;

    * improve the environment; and

    * enhance national security by reducing energy imports.

* The tax is based on the energy content of fuels (called a Btu tax for "British thermal units") along with a national security premium on oil to discourage imports and help encourage domestic natural gas. The tax is levied on energy sales to industries and utilities. The energy tax will be phased in over three years, at which point it will provide $22 billion dollars annually for the treasury. (The phased-in supplemental petroleum tax is delayed for one year for home heating oil, in order to protect consumers in the Northeast who heat homes with oil.)

* Because it applies to all energy products, the tax will not unduly burden any region, industry, or consumer segment.

The U.S. spends about $500 billion on energy every year, so that a tax generating $22 billion in net revenues will not seriously increase overall energy expenditures. When fully phased in:

- * Gasoline prices would increase by about 8 cents, a 6% increase;

- * Electric bills would increase by less than 4%; and

- * Natural gas prices would increase by about 4%.

- * Home heating oil prices will increase by about 8%, but the full impact will be delayed by one year.

- * Annual energy expenditures by a family of four with $40,000 per year in income are about $2,600. The tax would increase expenditures by about $125 per year.

* Other elements of the Administration energy plan makes the entire revenue package progressive -- that is, people with lower incomes pay much smaller amounts than do higher income persons.

- * Expanded earned income tax credit will reduce overall tax burden of lower income families;

- * Expanded low-income energy assistance programs will target lower income families in regions of higher energy prices

- * Additional Food Stamp Assistance will further help lowest income families.

The Administration has ensured that those persons who can afford to pay a little extra for energy will help reduce the deficit, while protecting those least able to contribute.

* Because the energy tax is phased in, relatively small, and based primarily on energy content, the tax will encourage overall energy efficiency, while avoiding significant shifts in fuel markets which would pit regional interests against each other.

* The energy tax combined with other measures will enhance American competitiveness:

- * Reducing the deficit will lower stubbornly high long-term interest rates;

- * Targeted investment tax credits will increase private investment;

    * Permanent R&D tax credit will spur private sector innovation;

    * Expanded energy conservation programs at EPA and DOE will help industrial and commercial energy users to help control energy costs.

    * Incentives for expanded use of natural gas will encourage the use of this domestic clean energy source.

    * Manufacturing extension programs will emphasize energy efficient technology for small and medium sized firms.

    * American companies will still face much lower energy prices than our main economic rivals in Europe and Japan.

* The energy tax will reduce dependence on foreign oil, reduce the U.S. trade deficit, enhance national security, and restore U.S. leadership role in international environmental protection:

    * Reduction in oil use would come primarily from imports, most of which comes from unstable regions of the globe;

    * U.S. oil imports account for over half of our trade deficit;

    * Since the 1950s, the U.S. has spent over a trillion dollars to ensure the free flow of oil from the Persian Gulf.

    * The U.S. can regain international leadership role in responding to the threat of climate change. An energy tax would give the U.S. strategic leverage in negotiating strong international environmental commitments.

    * The European Community has indicated that it would follow the U.S. lead and tax pollution-causing energy use in their member countries.

* The environmental benefits from energy conservation include reduces emissions of carbon dioxide (the most important greenhouse gas), automobile emissions that cause urban smog, and emissions from factories and utilities that contribute to acid rain. The projected reductions in carbon dioxide will help the U.S. meet international goals for greenhouse gas reductions.

* The adoption of an energy tax represents a vigorous commitment to deficit reduction, fairness, competitiveness, energy conservation, and global environmental protection. Combined with other essential elements in President Clinton's economic plan, the overall package will ensure that the economy will create jobs as we pull out of recession now, and will invest appropriately so that the U.S. standard of living will increase as we enter the 21st century.

Note: Attached are OMB documents on major items in the environmental budget. I am also attaching a memo done for me by Hazel O'Leary's chief of staff that outlines some of the important conservation and efficiency investments in the package.

INTERNATIONAL INITIATIVES (these are all approximate figures):

Climate Change Country Studies to implement Framework Convention on Climate Change: $12.5 million in FY'94

Montreal Protocol Fund: $28.5 million for FY'94

Global Environment Facility: $50 million in FY'94

Forests for the Future: $150 million in FY'94

Population: thru AID and UNPF: $400-500 million in FY'94

UNEP: 22 million

This paper will provide you with a general description of the elements pertaining to DOE included in the stimulus and investment programs. Please keep in mind that the information is somewhat general, given the lack of available information.

Regarding outreach, as we discussed today on the budget and energy tax issue, we should communicate the information to the conservation, renewable and environmental communities, industry, Congress and the states. As more information is provided, we can develop a more specific paper for distribution. As we discussed, we should meet with the groups which follow on Thursday and Friday to discuss energy tax and budget packages. What follows are the groups and those responsible for initiating the meeting.

| | |
|---|---|
| Electric, gas, oil, coal | Rich Rosenzweig |
| Conservation, renewable energy, and environmental | Rich Rosenzweig/Katie McGinty |
| Senate energy and environment committees | Katie McGinty |
| House Energy and Commerce Committee | Rich Rosenzweig |
| States | Rich Rosenzweig |
| Consumers | Rich Rosenzweig |

We can further discuss this at the public liaison meeting on Monday.

## Budget Facts

MESSAGE: The initiatives which follow begin to address the Administration's commitment to encourage efficiency, renewables and natural gas while using the Department's assets to encourage long-term economic growth.

**Stimulus Package**

- Weatherization: ($50 million in addition to the FY 1993 appropriation of $185 million.) States will be required to match federal funds to gain a grant. With the state funds, 62,500 additional homes will be weatherized, reducing energy use and putting low-income people to work.

- Funding for "Model Projects" in Building and Industrial Conservation: There will be a one-time solicitation which will provide $20 million in cost-shared federal funding (50%) for model projects that demonstrate or accelerate the commercial acceptance of advanced energy saving technologies and products. Such model demonstrations, particularly in the building industry, will create jobs and lead to energy efficiency and reduce energy use in the building sector.

* analysis w/: baseline
24 94 –
* energy bill comparison.

- Increased Spending on Non-Defense Cooperative Research and Development Agreements at the Labs (CRADAs): CRADAs are a mechanism by which labs can work with industry to transfer technology developed in labs to the private sector. The money goes to the labs to pay for R&D in the CRADA. The laboratory work is proprietary to the private sector which holds the patent rights. The stimulus initiative provides $50 million for the CRADA initiative. This will allow 250 lab scientists to work with industry to develop new technologies. In addition, $50 million appropriated to defense labs in FY 1993 for R&D of nuclear weapons will be redirected to CRADAs for dual-use technologies.

- Alternative Fuel Vehicles (AFVs): This initiative provides increased funding for acquisition of AFVs for the fleet and for conversion of existing vehicles. The initiative proposes $30 million in FY 1993 for the purchase and/or conversion of petroleum- based gasoline powered vehicles to AFVs. The increased funds in the Administration proposal will be used to accelerate the schedule of purchases of new vehicles and convert existing vehicles. This meets an important campaign commitment, and as important, it will create a market for AFVs and reduce pollution and oil use in the transportation sector, which accounts for 70% of U.S. oil use.

**Investment Package**

- Weatherization: This is the same program listed in the stimulus package section. However, the program will receive an additional $100 million per year from FY 1994-97. With 1:1 leveraging of state and federal funds, it is estimated that an additional 500,000 homes will be weatherized over the projected number from FY 1994-97.

- Increased Funding for Renewable Energy and Conservation Programs: The Energy Policy Act of 1992 requires establishment of new efficiency standards, authorization for new research programs, and demonstration and commercialization of renewables and conservation. The initiative includes $200 million in FY 1994, increasing to $500 million in FY 1997 for a total of $1.4 billion over the baseline. The funds will be distributed to four areas, solar and renewable energy, industrial transportation and building conservation R&D. These initiatives will provide major energy, environmental and economic benefits.

- Federal Energy Management: The Energy Policy Act of 1992 requires that federal agencies reduce energy consumption by 20% per square foot in 2000. The Administration will spend nearly $2.0 billion between FY 1994-97 to achieve this goal. This initiative will reduce energy use and the government's energy bill. The four largest energy using agencies (DOD, DOE, GSA, and VA) will receive increased direct funding for in-house energy management programs. A fund will be established for the other agencies at DOE for energy efficiency projects.

- Increased Natural Gas Use: There will be increased R&D spending that will help to ensure that enhanced R&D will be relevant to the needs of the industry and marketplace. Natural gas R&D will be increased by $22 million in FY 1994 to an additional $119 million in FY 1997 from the baseline.

- Increased Funding for CRADAs: This is the same program as mentioned in the stimulus package section. In an attempt to begin fulfilling its technology transfer mission as assigned by the National Competitiveness and Technology Transfer Act, DOE has been attempting to develop cooperative agreements with the private sector for joint projects. There are more requests for funding than can be accommodated, given current funding levels. To accommodate these requests, DOE will receive an additional $50 million per year from FY 1994-97.

- Large Science Projects:

  o *Advanced Neutron Source*--This facility would fund design and construction to produce isotopes for medical use, treatment and research, and to perform applied research utilizing neutron scattering. Industry, universities, and labs would be users. The heart of the facility would be a new research reactor which would have the most intense beams of steady state neutrons in the world. The proposal adds $437 million over the FY 1994-97 period.

  o *Superconducting Super Collider*--It is possible that the SSC will have benefits such as miniature electronic devices, high efficient motors and super fast surface transportation systems. The SSC is intended to answer fundamental question on the nature and origin of matter and energy. This high power proton collider will achieve energy levels needed to detect heretofore unseen particles and confirm or require fundamental rethinking of basic theories of physics. The SSC will help American science and scientists break into new frontiers of knowledge.

  Concerns about SSC magnets, cost and schedule controls necessitate slowing down the rate of construction until these issues are addressed. This will add three years to the project and $1.8 billion. The U.S. is committed to the project and will seek foreign participation in the project. The proposal adds an additional $112 million in the base period.

15-Feb-93

# *Environmental Budget: Major Items*

(changes to baseline)

| | (dollars in millions) |
|---|---|
| ***Stimulus*** | **1993** |
| Wastewater Treatment State Revolving Funds (EPA) | 845 |
| Watershed Resource Restoration (EPA) | 47 |
| "Green" Programs (EPA) | 23 |
| Rural Water/Wastewater Loans and Grants (USDA) | 750 |
| Watershed Projects (USDA) | 47 |
| Nat. Res. Protection and Env. Infrastructure (USDA) | 188 |
| Nat. Res. Protection and Env. Infrastructure (Interior) | 349 |
| Historic Preservation Repair and Maintenance (Interior) | 23 |
| ***TOTAL STIMULUS (budget authority)*** | **2,249** |
| ***Investment*** | **1994** |
| Drinking Water State Revolving Funds (EPA) | 600 |
| Clean Water State Revolving Funds (EPA) | 1,200 |
| Environmental Technology (EPA) | 36 |
| Watershed Resource Restoration (EPA) | 30 |
| "Green" Programs (EPA) | 15 |
| Rural Water/Wastewater Loans and Grants (USDA) | 300 |
| Forests for the Future (USDA) | 30 |
| Tree Planting Initiative (USDA) | 41 |
| National Research Initiative (USDA) | 30 |
| Forestry Research Initiative (USDA) | 20 |
| Wetlands Reserve Program (USDA) | -- |
| Natural Resource and Environ. Infrastructure (Interior/USDA) | 239 |
| Recreational Land Acquisition and State Grants (LWCF) | -- |
| ***TOTAL INVESTMENT (budget authority)*** | **2,541** |
| ***Savings*** | **1997** |
| Completion of Wastewater Treatment Constr. Grants (EPA) | 1,947 |
| Private Sector Financing of Superfund Cleanups (EPA) | 109 |
| Federal Irrigation Water Surcharge (Interior) | 15 |
| Grazing User Fees (Interior/USDA) | 35 |
| Hardrock Mining Holding Fees and Royalties (Interior) | 357 |
| Phaseout Below-Cost Timber Sales (USDA) | 28 |
| Reduce or Stretch-Out Water Project Constr. (Interior/Army) | 92 |
| Increased Inland Waterway User Fees (Army) | 460 |
| ***TOTAL SAVINGS (outlays)*** | **3,043** |

February 15, 1993

# Environmental Budget: Major Items
# (changes to baseline)

## I. Stimulus

### Environmental Protection Agency

Wastewater Treatment State Revolving Funds -- ($845M in 1993 BA)

This proposal would provide $845 million in capitalization grants to State Revolving Funds (SRFs), which make low-interest loans to municipalities for construction of sewage treatment facilities. This would accelerate completion of an $18 billion wastewater treatment grant authorization that is scheduled to end in FY 1994. The funding would supplement $2.5 billion in FY 1993 enacted funding for EPA wastewater treatment grants.

Watershed Resource Restoration -- ($47M in 1993 BA)

This proposal would supplement current funding with an additional $47 million for non-point source grants under Section 319 of the Clean Water Act. Non-point source pollution, such as runoff from farms, mining sites and city streets, is now the largest cause of pollution in our Nation's waters. Reductions in non-point source pollution will help restore watersheds and estuaries, leading to increased numbers of fish and other aquatic life, and improving fishing and recreational opportunities in urban, suburban, and rural areas.

Expand EPA's Voluntary "Green" Programs -- ($23M in 1993 BA)

This proposal would expand EPA's voluntary "Green" programs by $23 million in FY 1993 over the current $8 million funding level. During the past two years, EPA launched its "Green Lights" program to encourage Fortune 500 companies to convert profitably into more energy-efficient lighting, which will reduce electricity generation and reduce greenhouse gas emissions. These programs can be expanded to include energy-efficient industrial motors, heating/ventilation/air conditioning (HVAC), residential clothes washers and dryers, and heat pumps.

**Department of Agriculture**

Increase Rural Development Administration (RDA) Rural Water and Wastewater Loans by $470 Million, and Grants by $280 Million

This proposal increases the RDA FY 1993 loan authority from $600 million to $1.1 billion and its grant authority from $390 million to $672. To comply with clean water standards set by EPA, rural America's water and wastewater needs total roughly $10 billion by the year 2000. Often many small, poor, rural communities are unable to meet these clean water and wastewater standards without Federal assistance.

Increase Funds for Watershed Projects (SCS) -- ($47M in 1993 BA)

This proposal would provide an additional $47 million in FY 1993 to help reduce a backlog of Soil Conservation Service (SCS) emergency watershed projects that are currently eligible for Federal assistance. These projects address local watershed problems caused by soil erosion, sedimentation, and flood damage. SCS projects may also improve water quality and supply in rural areas.

Natural Resource Protection and Environmental Infrastructure Initiative -- ($188 million in 1993 BA)

This proposal would provide $188 million in FY 1993 to protect and rehabilitate America's inventory of natural and rural assets, restore facilities that protect these resources, and improve public access to them. This funding would complete the inventory of ready-to-go resource protection projects, facility maintenance, rehabilitation and construction and other similar projects that stimulate economic growth and employment in rural areas.

**Department of the Interior**

Natural Resource Protection and Environmental Infrastructure Initiative -- ($349M in 1993)

This proposal would protect and rehabilitate America's inventory of natural and cultural assets, restore the facilities that protect these resources, and improve public access to them. This funding would complete the inventory of ready-to-go resource protection projects, facility maintenance, rehabilitation and construction and other similar projects that stimulate economic growth and employment in rural and urban areas. The work would be located at resource areas managed by the Department of the Interior (National Park Service, Fish and Wildlife Service, Bureau of Land Management, and Bureau of Indian Affairs). Funds will supplement existing National Park Service operating programs such that facilities or services previously scheduled to be closed in 1993 will remain open.

Historic Preservation Funding for Repair and Deferred Maintenance Projects -- ($23M in 1993 BA)

The Administration proposes $23 million to fund a backlog of brick and mortar rehabilitation projects, emergency surveys, engineering reports, and deferred maintenance at National Trust for Historic Preservation Museum properties across the Nation, and other priority State and tribal projects.

# II. Investment

**Environmental Protection Agency**

Drinking Water State Revolving Funds -- ($600M in 1994 BA; $1B per year 1995-97)

This proposal would provide $1 billion per year in new capitalization grants to State Revolving Funds in FY 1995-97 for the purpose of making low-interest loans to help municipalities comply with Safe Drinking Water Act (SDWA) requirements. EPA estimates that States and localities will need to invest $10 billion in drinking water infrastructure through 1998 to meet SDWA requirements. In the past, the Federal

Government has not provided funding to meet the capital costs of these SDWA requirements other than in rural areas.

<u>Clean Water State Revolving Funds</u> -- ($1,200M in 1994 BA; $2B per year 1995-97)

This proposal would provide $2 billion per year in FY 1995-97 under a new authorization for capitalizing Clean Water State Revolving Funds (SRFs). These SRFs would make low-interest loans to municipalities for construction of projects to address water quality problems. These funds would help municipalities comply with recent requirements for stormwater control and help implement management plans for restoring estuaries.

<u>Increase Investment in Environmental Technology</u> -- ($36M in 1994 BA; $625M total for 1995-97)

This proposal would increase funding for environmental engineering and technology development by $36 million in FY 1994, a total of $625 million through 1998, and a total of $1.85 billion over nine years. The focus of this initiative would be long-term research and pollution prevention by EPA, other Federal agencies, and the private sector. The goal is to develop more advanced environmental systems and treatment techniques that can yield environmental benefits and increase exports of "green" technologies.

<u>Watershed Resource Restoration</u> -- ($30M in 1994 BA; $50M per year 1995-97)

This proposal would double the current funding level of $50 million annually for non-point source grants under Section 319 of the Clean Water Act. Non-point source pollution such as runoff from farms, mining sites and city streets, is now the largest cause of pollution in our Nation's waters. Reductions in non-point source pollution would help restore watersheds and estuaries, leading to increased numbers of fish and other aquatic life, and improving fishing and recreational opportunities in urban, suburban, and rural areas.

<u>Expand EPA's Voluntary "Green" Programs</u> -- ($15M in 1994 BA; $25M per year 1995-97)

This proposal would provide an additional $25 million annually for EPA's voluntary "Green" programs in FY 1995-1997. During the past two years, EPA launched its "Green

Lights" program to encourage Fortune 500 companies to convert profitably into more energy-efficient lighting, which will reduce electricity generation and greenhouse gas emissions. These programs can be expanded to include energy efficient industrial motors, heating/ventilation/air conditioning (HVAC), residential clothes washers and dryers, and heat pumps.

**Department of Agriculture**

Increase Rural Development Administration (RDA) Rural Water and Wastewater Loans by $300 Million, and Grants by $200 Million Per Year for 1995 to 1997 -- (1994 Loans -- $180M; 1994 Grants --$120M)

This proposal would increase RDA loan authority from $600 million to $780 million and its grant authority from $390 million to $510 million FY 1994. Without Federal assistance, small water and wastewater systems face extraordinarily large increases in water and sewer charges associated with evolving environmental standards. To comply with clean water standards set by EPA, rural America's water and wastewater needs total roughly $10 billion by the year 2000. Often many small, poor, rural communities are unable to meet these clean water and wastewater standards without Federal assistance.

Forests for the Future -- ($30M in 1994 BA; $50M per year 1995-97)

Recognizing the importance of global forests, the budget would propose an investment of $50 million per year for 1994-1997, towards the international goal of reducing world-wide deforestation. At the 1992 Rio "Earth Summit", the U.S. proposed that all countries join in doubling international forest assistance. This investment would be a downpayment towards the commitment to fund initial partnership activities with both foreign nations and domestic and international non-governmental organizations.

Tree Planting -- ($41M in 1994 BA; $263M 1994-1997)

This proposal would provide $41 million for an expanded tree planting initiative. The program has two principal components: a rural initiative providing cost-sharing to non-industrial private forest land owners for tree planting; and an urban initiative focusing on technical assistance and community grants to promote urban tree planting and forestry practices. Reforestation and stand improvement on these lands can result in increased environmental benefits such as removing more carbon dioxide from the air.

National Research Initiative (NRI) Grants -- ($30M in 1994 BA; $480M 1995-97)

The Nation faces major challenges to ensure the food supply's safety and quality, sustain natural resources, and continue the competitiveness of U.S. agricultural products in global trade. In order to meet these challenges, this proposal would provide $180 million in 1994 to fund an additional 500 research projects for food safety, sustainable agricultural production, and decreased environmental impact.

Forestry Research Initiative -- ($20M in 1994 BA; $287M 1995-97)

This proposal would provide $300 million over four years to the Forest Service to allow it and other USDA research agencies to increase the breadth and depth to which forestry research areas are investigated. The proposal would provide the necessary information to help the Nation develop sound forest-related policies that would both provide resources to meet ever-increasing demands from the population and sustain forest ecosystems.

Wetlands Reserve Program (WRP)

Full funding of the Wetlands Reserve Program would be maintained, allowing one million wetlands acres to be enrolled under permanent easements by the end of 1995: $373 million in 1994 and $414 million in 1995 would be included for the WRP.

**Departments of the Interior and Agriculture**

Natural Resource Protection and Environmental Infrastructure Initiative -- $239M in 1994 BA; $1,710M total 1994-97)

The proposal would provide $239 million in 1994 to protect and rehabilitate America's inventory of natural and cultural assets, restore the facilities that protect these resources and improve public access to them. This funding would complete the inventory of read-to-go resource protection projects, facility maintenance, rehabilitation and construction and other similar projects that stimulate economic growth and employment in rural and urban areas. Interior bureaus afected are the National Park Services, Fish and Wildlife Service, and Bureau of Land Management.

Federal Recreational Land Acquisition and State Grants (Land and Water Conservation Fund, LWCF) at FY 1994 baseline level (about $260 million).

# III. Savings

**Environmental Protection Agency**

Completion of Wastewater Treatment Construction Grants -- ($1.9B in 1997 outlays savings)

With the $846 million in wastewater stimulus funding provided in FY 1993, the $18 billion authorization under the 1987 Water Quality Act, which was designed to end Federal assistance, would be virtually completed a year ahead of schedule. As these loans are repaid, States would be able to make a new round of loans due to the self-sustaining nature of the State Revolving Funds. The Budget also proposes (under Investment) a new $2 billion annual authorization for capitalizing Clean Water State Revolving Funds for low-interest loans to municipalities to address water quality problems.

Increase Private Sector Financing of Superfund Cleanups -- ($109M in 1997 outlay savings)

More aggressive use of Superfund's enforcement mechanisms could achieve even greater private financing of these cleanups without affecting protection of human health and the environment. The proposal would preserve Federal Superfund money only for sites where there are no viable private parties to undertake the cleanup to ensure that the greatest number of sites can be cleaned up within the limited funding available in the Superfund trust fund.

## Department of the Interior

Implement a Federal Irrigation Water Surcharge -- ($15M in 1997 outlay savings)

This proposal would authorize a per acre-foot surcharge on water sales to Reclamation projects throughout the West (except for the Central Valley Project in California, for which a similar surcharge was recently enacted). Revenue from the surcharge would be deposited into a special fund for use (subject to appropriation) in mitigating irrigation-caused adverse impacts on fish and wildlife. The surcharge would also encourage more rational water use that would reduce the harmful impacts of non-point source pollution.

Increase Grazing Fees -- ($35M in 1997 outlay savings)

This proposal would increase grazing fees on public lands as negotiated by the Secretaries of Interior and Agriculture, who would be given the flexibility to develop alternative approaches to the current formula.

Permanently Extend Hardrock Mining Holding Fees and Institute Hardrock Mining Royalties ($357M in 1997 outlay savings)

This proposal would permanently authorize charging a $100 per claim holding fee on all hardrock claims on Federal lands and would establish a 12.5 percent royalty to the gross value of the hardrock minerals extracted from mining claims on public lands. The claimant would be relieved of annual work requirements, which should increase flexibility on timing the development of claims. It would also reduce unnecessary ground disturbance to satisfy current law. The new royalty would be phased in over three years to reduce the impact on the mining industry and local communities. Receipts from hard rock mining royalties would be shared with the States where the mining occurs.

Phaseout Below-Cost Timber Sales -- ($28M in net 1997 outlay savings)

Timber sales from some National Forests do not cover the costs to the Government of making the timber available for sale. This proposal would gradually eliminate sales in those forests where timber-sale program costs exceed timber-sale revenue.

**Department of the Interior/U.S. Army Corps of Engineers**

Reduce or Stretch-Out Construction Funding for Low-Priority Water Projects -- ($92M in 1997 outlay savings)

This proposal would reduce or stretch-out funding for certain Army Corps of Engineers and Bureau of Reclamation water resources projects. These projects are often environmentally destructive.

**U.S. Army Corps of Engineers**

Phase in Increased Inland Waterway User Fees -- ($460M in 1997 outlay savings)

This proposal would increase the Federal fuel tax over several years to $1.00 in 1997. The revenue would be used to offset the cost of operating and maintaining the inland waterway system.

Wastewater and Drinking Water State Revolving Fund (SRF) Funding Summary

| | | Baseline | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | | |
| Wastewater Treatment | BA | 2,500 | 2,568 | 2,634 | 2,700 | 2,768 | 2,837 | | |
| | OL | 2,372 | 2,381 | 2,535 | 2,628 | 2,662 | 2,692 | | |
| | | Changes to Baseline | | | | | | 1994-97 | 1994-98 |
| | | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | Total | Total |
| Stimulus: | | | | | | | | | |
| Complete SRF Wastewater | BA | +845 | -- | -- | -- | -- | -- | -- | -- |
| Authorization in FY 1993 | OL | +39 | +179 | +272 | +172 | +72 | +34 | +695 | +729 |
| NDD Savings: | | | | | | | | | |
| End Current Wastewater Grants | BA | -- | -2,418 | -2,484 | -2,550 | -2,618 | -2,687 | -10,070 | -12,757 |
| (except $150M/yr NAFTA) | OL | -- | -109 | -624 | -1,424 | -1,947 | -2,207 | -4,104 | -6,311 |
| Investment: | | | | | | | | | |
| Drinking Water SRF | BA | -- | +600 | +1,000 | +1,000 | +1,000 | +1,000 | +3,600 | +4,600 |
| | OL | -- | +24 | +172 | +440 | +692 | +840 | +1,328 | +2,168 |
| Clean Water SRF (Stormwater) | BA | -- | +1,200 | +2,000 | +2,000 | +2,000 | +2,000 | +7,200 | +9,200 |
| | OL | -- | +54 | +344 | +900 | +1,402 | +1,666 | +2,700 | +4,366 |
| Net Change: | | | | | | | | | |
| SRF Wastewater and | BA | +845 | -618 | +516 | +450 | +382 | +313 | +730 | +1,043 |
| Drinking Water | OL | +39 | +148 | +164 | +88 | +219 | +333 | +619 | +952 |
| | | Total | | | | | | | |
| SRF Wastewater and | BA | 3,345 | 1,950 | 3,150 | 3,150 | 3,150 | 3,150 | | |
| Drinking Water | OL | 2,411 | 2,529 | 2,699 | 2,716 | 2,881 | 3,025 | | |

Environmental Protection Agency

Question #1: What are the impacts of the wastewater and drinking water proposals?

Answer: There are three pieces to the proposal on EPA wastewater funding. The first is to provide $845 million in FY 1993 stimulus through additional capitalization grants to the State Revolving Funds (SRFs) in FY 1993.

The second piece is to eliminate current EPA wastewater funding (except $150 million per year to support NAFTA) reflecting the near completion in FY 1993 of the existing $18 billion authorization. This authorization was designed to end Federal assistance. Current funding consists of roughly $400 million in earmarked grants for seven cities (Boston, New York, Los Angeles, San Diego, Seattle, Baltimore, and Detroit) and $2 billion in capitalization grants for wastewater SRFs. This reduction is largely offset by the third piece of the proposal, which is the $2 billion per year in capitalization grants for Clean Water SRFs ($1.2 billion in FY 1994) under a new authorization that is included in the investment package.

The distinction between the $2 billion in wastewater SRFs funding cut in the savings package and the $2 billion in Clean Water SRF funding provided in the investment package is that the new funding (which requires legislation) will place a greater emphasis on stormwater control projects and will be eligible for a broader class of projects. Consequently, the main effect of the savings and stimulus proposals taken together is the elimination of the earmarked grants for the seven cities. These targeted grants have been strongly supported by the Congressional delegations of the affected States and opposed by the other States.

The drinking water proposal in the investment package provides $1 billion per year in EPA funding ($600 million in FY 1994) for construction projects to ease the burden on municipalities of complying with Safe Drinking Water Act requirements. This would require additional legislation as EPA currently has no authority to provide such assistance. The distribution of funds among States will need to be determined. It should also be noted that for exclusively rural areas, the Rural Development Administration, has received an increase of $752 million for water and wastewater loans and grants in the stimulus proposals and $500 million annually FY 1995-98 for water and wastewater grants and loans ($300 million in FY 1994) in the investment proposals.

## Natural Gas Industry Issues Affecting Energy Tax Modeling Results

The model being used does not accurately relect the recent changes in natural gas industry technology and regulation. As a result, the model misrepresents the ability of the industry to respond to the changes in market conditions that result from some forms of energy taxes described in the scenarios.

I. Wellhead Market for Natural Gas

- The natural gas wellhead market is now a competitive commodity market with gas to gas competition determining natural gas wellhead prices. This market has developed a strong seasonal pattern (see attached graph). Long term model results driven by annual solutions (even if a quarterly seasonal pattern is overlaid on that solution) miss the nature of the competitive market.

  — An indicator of such results is a close correlation between the relative changes of oil and gas prices between scenarios. Gas price changes correlate to oil price changes only when the relative prices allow oil to capture a noticeable percentage of "off-peak" markets(i.e. when sufficient excess natural gas pipeline capacity exists). Such conditions do not currently exist and are not expected to exist in most base case scenarios.

- Movement along (upward) an extremely inelastic 20 year supply curve is inconsistent with a mature competitive commodity market. Like world oil markets, short-term increases in the demand and/or price of natural gas result in the development of technology which shift the entire supply curve. Resource depletion effects are overwhelmed by technology improvements which lower drilling costs and improve productivity. The dynamics of the nested short-run supply curves do not support the long-term gas price increases indicated by the model.

II. Natural Gas Transmission and Distribution Pricing

- The natural gas industry has undergone a complete regulatory restructuring culminating with the implementation of FERC Order 636 over the next year. Transmission and distribution pricing of the model is based on a largely static cost allocation formula embedded in a regulatory structure that no longer exists. Natural gas retail prices should reflect a flexibility in transmission and distribution pricing the beginnings of which can be seen in the period from 1984 through 1991 (see attached Table 1). Model results between scenarios must reflect the dynamic nature seasonal "selective discounting" and State Public Utility Commission response in the face of by-pass of the distribution company through direct pipeline interconnect.

  — An indicator of this failing in the model results would be a disproportionate loss in large volume industrial or electric generation gas demand between scenarios.

- Under Order 636, a "secondary market" for released firm capacity competes with pipeline interruptable transportation. Such competition between differing firms will insure that off-peak discounting will occur with the limit being only variable cost (economic shutdown point).

- Even for primary market firm transportation contracts, the Order 636 environment will result in discounting of pipeline reservation fees to maximize revenue, not the "death spiral" behavior embedded if the revenue requirement is held constraint in the face of changes in natural gas demand that is seen in the model.

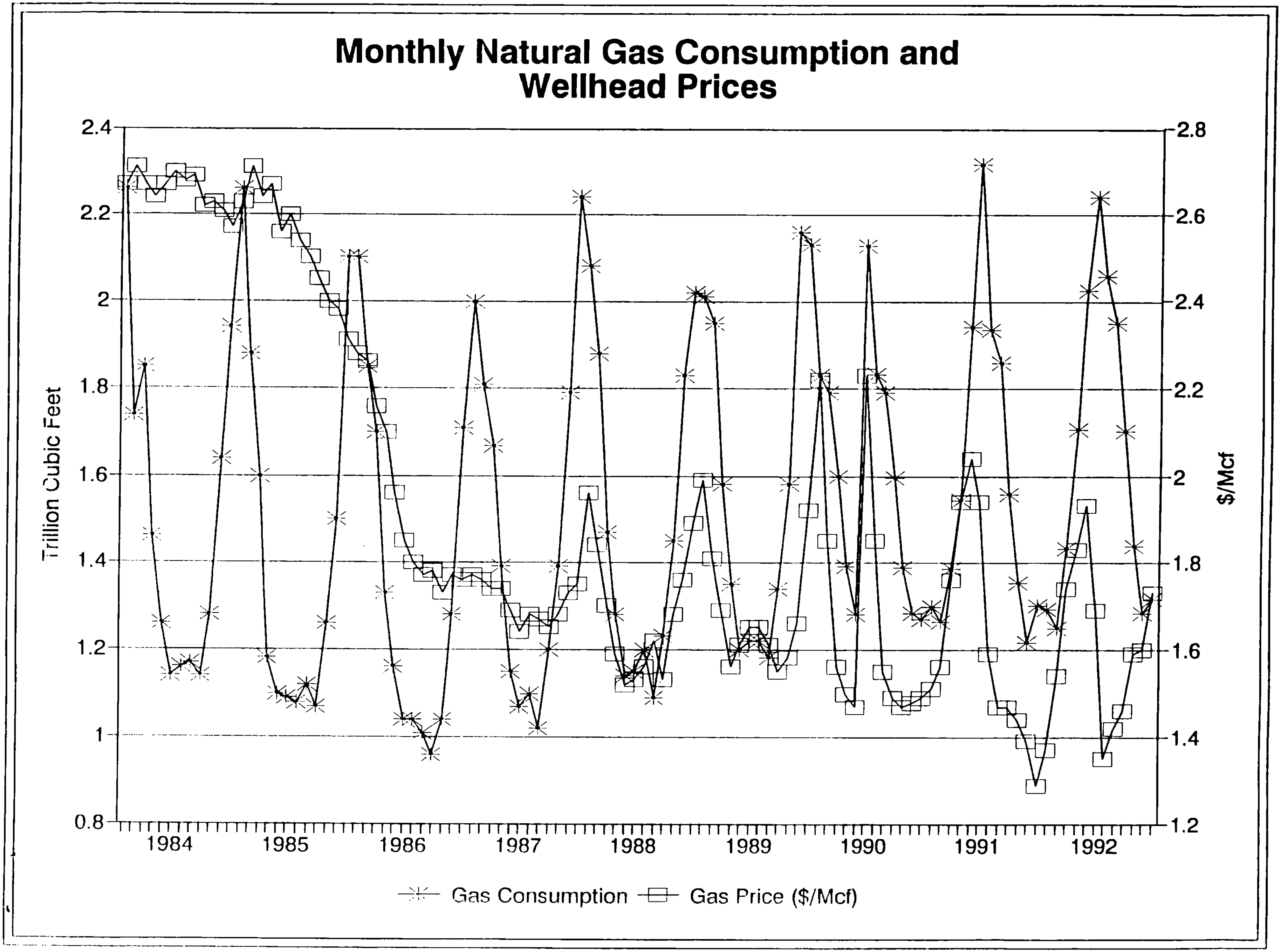
- The long-term dynamics of the natural gas transportation and distribution market are driven by changes in incremental pipeline infrastructure investment and are best described by a "Putty/Clay" model formulation of labor/capital/materials. The model does not capture these dynamics between scenarios in terms of infrastructure investment overtime.

III. End-use Natural Gas Markets

- The natural gas end-use market responds to the seasonal wellhead market and to competitive forces in the transmission and distribution industry. Without differentiating the market prices in each service sector (residential, commercial, industrial and electric utility) the model cannot accurately predict demand response between scenarios.

  — As a result, the model shows virtually no cross-elasticity between gas and coal in the short-term either by direct gas use vs. coal over wire or in existing coal fired power plants. There has, in fact recently been significant short-term elasticity between gas and coal. This trend will be accelerated by phase-one of the Clean Air Act.

- Dynamic responses are particularly poor in regard to new market development (alternative fuel vehicles, natural gas cooling, cofiring of natural gas with coal and reburn technology).



Monthly Natural Gas Consumption and Wellhead Prices
Trillion Cubic Feet
$/Mcf
2.4
2.2
2
1.8
1.6
1.4
1.2
1
0.8
2.8
2.6
2.4
2.2
2
1.8
1.6
1.4
1.2
1984
1985
1986
1987
1988
1989
1990
1991
1992
Gas Consumption
Gas Price ($/Mcf)

Table 1

**Average Retail Natural Gas Prices**

($Mcf)

| | **Residential** | **Commercial** | **Industrial** | **Electric Utility** |
|---|---|---|---|---|
| 1984 | 6.12 | 5.55 | 4.22 | 3.70 |
| 1991 | 5.84 | 4.89 | 2.51 | 2.17 |
| Change in Retail Price | -0.28 | -0.66 | -1.71 | -1.53 |

[1]Includes adjustment for transportation deliveries of gas.
Source: DOE, *Monthly Energy Review*; 1991 estimated from first 11 months data.

**DEPARTMENT OF AGRICULTURE**
1994 Budget Passback

Stimulus (1993):

- o $4 million in FY 93 BA to add **160 meat and poultry inspectors** in the Food Safety and Inspection Service.
- o Includes $348 million for **rural water and wastewater loans and grants.**
- o Funds rural **very-low income housing repair loans and grants** ($7 million).
- o Includes $188 million for **Forest Service enhanced natural resource protection and environmental infrastructure** (including trails).
- o Includes $47 million for **emergency watershed project repair and construction.**
- o $71 million to begin **full funding for a Special Supplemental Food Program for Women, Infants, and Children** (WIC).
- o $23 million for the **Emergency Food Assistance Program** (TEFAP) for commodities to be delivered early in FY 1994. This would ensure a smooth flow of commodities while waiting for FY 1994 funds. FY 1994 funding will maintain approximately the FY 1993 level of commodity deliveries.
- o $38 million for **repair and maintenance activities** and **hazardous waste clean-up** at **Agricultural Research Service facilities.**
- o $56 million for the Child and Adult Care Food Program to pay for meals for children added to Head Start as a result of funds provided under the Stimulus package.

**Investments (1994-97):**

- o **Over $17 billion in total BA FY 1994-1997** is included for Investments **above baseline levels,** including:
  - oo **$871 million for water and wastewater and grants** (FY 1997 outlays = $176 million, 1994-1997 = $331 million); part of the rural development initiative.

oo **$2.4 billion for business and housing loans and grants** (FY 1997 outlays = $454 million, 1994-1997 = $1,155 million); also part of the rural development initiative.

oo **$2.7 billion for the Women, Infants, and Children** (WIC) program, to begin covering all eligible, so that **the President's "full" funding commitment would be met by the end of FY 1996** (FY 1997 outlays = $1 billion, 1994-1997 = $2.7 billion).

oo **$9 billion in Food Stamp increases to help offset the effects of the energy tax on low-income households.** ($1 billion in FY 1994, $2 billion in FY 1995, and $3 billion per year after FY 1995).

oo **$565 million for Forest Service enhanced natural resource protection and environmental infrastructure** (FY 1997 outlays = $168 million, 1994-1997 = $506 million).

oo **$120 million in funding for a Food Safety Initiative** to hire additional meat and poultry inspectors (+200 FTEs) and perform interagency research to reduce the level of food-borne pathogens (FY 1997 outlays = $34 million, 1994-1997 = $111 million).

oo **$287 million** for **Forestry Research** to improve domestic ecosystem management, and $180 million for **Forests for the Future** international forestry assistance (combined FY 1997 outlays = $155 million, 1994-1997 = $431 million).

oo **$263 million** for a **Tree Planting Initiative**, to increase tree planting in both rural and urban areas (FY 1997 outlays = $76 million, 1994-1997 = $246 million).

oo **$480 million** for the **National Research Initiative Competitive Grants Program** to support high priority agricultural, food, and environmental research (FY 1997 outlays = $110 million, 1994-1997 = $188 million).

oo **$1.2 billion for the Child and Adult Care Food Program** to pay for meals for children added to Head Start as a result of funds provided under the Investment package. (FY 1997 outlays = $.3 billion, FY 1994-1997 outlays = $.8 billion).

<u>Proposed Discretionary Reductions</u> (savings in outlays)

- To fulfill the President's goal to downsize the Federal Government, a **Farm Service Agency** would be created from current USDA agencies serving farmers at the county level. The proposal would improve service for farmers while reducing staff needs at the USDA National, State and local levels (Savings in FY 1997 = $307 million, 1994-1997 = $730 million).

- **REA loans** would be made at Treasury rates while preserving $25 million in five-percent loans each year for "needy" electric borrowers (Savings in FY 1997 = $150 million, 1994-1997 = $374 million).

- Phase out **below-cost timber sales** over four years (Savings in FY 1997 = $86 million, 1994-1997 = $274 million).

- Increase **meat and poultry inspection fees** to cover all overtime work (Savings in FY 1997 = $104 million, 1994-1997 = $416 million).

- Reduce **lower-priority, earmarked agricultural research and facility construction** (Savings in FY 1997 = $112 million, 1994-1997 = $262 million).

- **Specific agriculture user fees** would be increased to cover the full cost to the Government of providing commodity grading, over-time inspection, and other services. (Affects Agricultural Marketing Service, Federal Grain Inspection Service, and the Agricultural Cooperative Service) (Savings in FY 1997 = $16 million, 1994-1997 = $59 million).

- **Foreign Agricultural Service** (FAS) lower-priority programs would be reduced with remaining funds targeted to those agriculture sectors that most need Federal assistance in order to enhance U.S. agricultural exports (Savings in FY 1997 = $10 million, 1994-1997 = $40 million).

- **Streamline the Economic Research Service (ERS),** reducing lower-priority economic research (Savings in FY 1997 = $17 million, 1994-1997 = $61 million).

- **FmHA direct farm loans would be cut by 25 percent** and subsidized guarantees would be increased by an equal amount; subsidized guarantees would be targeted to **beginning**

**farmers** as authorized by the 1992 Farm Credit Improvement Act (Savings in FY 1997 = $10 million, 1994-1997 = $31 million).

- **Streamlining** savings represent a freeze level for non-salaries and expenses accounts not affected by other proposals, and selected reductions in lower-priority programs (savings in FY 1997 = $76 million, 1994-1997 = $227 million).

- **Technical adjustments** and miscellaneous changes, such as FTS 2000 price savings, and the removal of one-time disaster assistance from the baseline (Savings in FY 1997 = $12 million, FY 1994-1997 = $47 million).

<u>Proposed Entitlement Savings</u> (savings in outlays)

- **Commodity Credit Corporation farm payments (CCC)** would be better directed to family-sized farmers. Farm payment recipients would be limited to those making less than **$100,000 in off-farm income** (Savings in FY 1997 = $140 million, 1994-1997 = $470 million). Also, **wool and mohair direct support payments** would be limited to $50,000 per person (Savings in FY 1997 = $66 million, 1994-1997 = $212 million.

- **Reforms contained in the 1990 Farm Bill** would be extended starting in FY 1996: **"triple base"** acres would be increased from 15 to 25 percent, with corresponding increases in fees on **"non-program" crops**, and the **0/92 and 50/92 programs would be eliminated.** Also, eliminate **honey program** subsidies in FY 1994. (Savings in FY 1997 = $1.8 billion, 1994-1997 = $2.9 billion).

- **Reform crop insurance** by basing indemnities on **area (county) yield**, rather than on individual farm experience (combined mandatory and discretionary savings in FY 1997 = $426 million, 1994-1997 = $1.3 billion). Also, annual **commodity disaster payments** would be reduced by increasing the loss threshold from 35 to 40 percent and funded on a mandatory basis through a Presidential declaration of an emergency.

- Phase in **increased grazing fees** over four years to approximate fair market value (Savings in FY 1997 = $13 million, 1994-1997 = $28 million). Secretary would be given flexibility to negotiate higher fees consistent with these savings targets.

- **Increase recreation fees**; would increase existing fees and add entrance fees at specific national forest recreation areas (Savings in FY 1997 = $13 million, 1994-1997 = $46 million); no increase greater than $3 per site or activity.

- **Reduce Food Stamp administrative expenses.** Beginning April 1, 1994, match all State administrative expenses at 50 percent. AFDC and Medicaid matching rates will also be set at 50 percent.

- **Market Promotion Program (MPP)** would have its current appropriation level of $148 million extended permanently (Savings in FY 1997 = $52 million, 1994-1997 = $208 million).

<u>**Across-the-Board Reductions**</u> (savings in outlays)

- **Pay adjustment** -$124 million BA in FY 94; due to Government-wide changes in pay.

- **FTE reduction** -$10 million BA in FY 1994; FY 1994 FTE level of 109,669; -2,812 (-2.5%) from FY 1993; pursuant to the Executive Order. (Most of the savings from FTE reductions were assumed in the Farm Service Agency proposal)

- **Other administrative efficiencies** -$66 million BA in FY 1994; -3% pursuant to the Executive Order.

- **Limits on R&D Grant Overhead** -$16 million BA in FY 1994.

February 16, 1993

**DEPARTMENT OF COMMERCE**
1994 Budget Passback

**Stimulus (1993)**

- EDA. An increase of $94M targeted to assist economically distressed communities.
- NOAA. An increase of $81M will support weather service modernization and procurement of computers and other equipment to enhance program-related research efforts.
- NIST. An increased of $117M is proposed for NIST programs -- $103M for the advanced technology program and $14M for networking and computer applications.
- NTIA/Information Highways. To promote faster introduction and expansion of networks between universities, businesses, schools and libraries, $64M in new grant funds is proposed. A new program.
- MBDA. To meet anticipated 1993 budget shortfall, an increase of $1.9M is provided.

**Investments (1994-97)**

- Weather Service Modernization. Provides funds in 1994 (+$155M over baseline) to finance the multi-year capital modernization program. Most increases are for weather satellites and improved weather detection technologies (e.g. doppler radars).
- National Institute of Standards and Technology (NIST). Grows from 1993 enacted of $381M to $1,369M by 1997. Increase over 1994 baseline is $181M and over 1997 baseline is $931M.
  - oo Advanced Technology Program grants: Program expands from $68M in 1993 (enacted) to $758M by 1997.
  - oo Manufacturing Extension grants: increased to support over 100 manufacturing outreach and technology centers nationwide by 1997. Program expands from $19M in 1993 (enacted) to $92M by 1997.
  - oo In-house research in NIST labs doubled over five-year period.
- Economic Development Administration. $33M will be available in 1994 and $55M will be available annually 1995 through 1998 as a part of the Defense conversion initiative.

- NTIA/Information Highways. Provides $54M in 1994 (baseline is zero) and $150M annually in 1995-1997 to expand the number of networks between universities, businesses, schools and libraries.

- FCCSET Initiatives. Additional funds may be provided in a separate passback.

**Non-Defense Discretionary Reductions**

- Bureau of Export Administration (BXA). Reduce 1994 BXA funding $6M below baseline consistent with recent reductions in license applications. Stress bilateral/multilateral agreements to control technology exports to unstable countries.

- NOAA. Eliminate $65M in 1994 spending for low priority programs, projects, and demonstrations, usually those earmarked by Congress.

- EDA - Trade Adjustment Assistance. Eliminate trade adjustment assistance to firms (-$13M below 1994 baseline). Secretary Brown mentioned this as a low-priority program.

- Pay Adjustment. No pay raise in 1994 and pay raise reduced by one percent in each year, 1995-1997. Omit locality pay in 1994; implement revised locality pay system beginning in 1995. Savings of $38 million in 1994 and $94 million in 1997.

- FTE Reduction. Implement Executive Order on 100,000 FTE reduction. Savings of $29M in 1994 and $233M in 1997.

- Other Administrative Efficiencies. Implement Executive Order on Deficit Control and Productivity Improvement in the Administration of the Federal Government. Savings of $21M in 1994 and $97M in 1997.

**Entitlements**

- Auction Spectrum. Support legislation to require the FCC to auction radio spectrum. This legislation would transfer 200 megahertz from the Federal Government to the FCC for assignment using auction. Need to work ASAP with Dingell to ensure that auction proposal is not foreclosed by fast-moving House legislation.

- Patent and Trademark Office. Extend existing (OBRA) user fees beyond sunset date of 1995 (or increase other existing patent fees by some amount). Provide for indexing for out-years. Yields in excess of $110M annually starting in 1996.

February 16, 1993

National Defense Talking Points

Post-Cold War military forces will be shaped for new requirements and highly ready:

-- 1.4 million men and women on active duty,

-- capable forward presence of roughly 100,000 troops in Europe, and

-- force readiness will be maintained at high levels.

Hardware programs:

-- major weapons systems will be assessed as the entire Defense program is reviewed this Spring,

-- systems will continue our technological superiority,

-- airlift and sealift adequate for new challenges,

-- funding for SDI will be reduced, pending a strategic review, and

-- science and technology programs remain a high priority.

National Defense Program will be affordable:

-- planned national defense funding over next 4 years fulfills the promise of an additional $60 billion in program savings,

-- program savings combined with government-wide pay and benefit changes and additional reductions to offset projected under-funding result in total outlay savings of $37 billion in 1997.

Defense planning will deal with new fiscal and management challenges.

-- Most recent 5-year budget plan of the previous administration may have:

- oo understated costs of forces and hardware, and
- oo overstated the savings from planned Defense Management Reforms and overhead consolidations.

-- Liabilities, such as for environmental clean-up, may be greater than previously anticipated.

-- A task force is reviewing these funding and management issues.

<u>Department of Energy Defense Programs</u>

-- 3% real increase (after inflation) per year for environmental clean-up, and

-- no nuclear weapons production and only 15 tests of weapons through 1996.

<u>To ameliorate the economic effects of reductions, the plan includes new initiatives for defense conversion</u>.

-- continued funding for the Department of Defense for dual-use technology and manufacturing programs,

-- additional funding for DOD's Office of Economic Adjustment and for the Economic Development Administration in the Department of Commerce for community diversification programs,

-- about $9 billion in 1994-97 in investment initiatives of the Departments of Energy, Transportation and Commerce and NASA for technology programs and high technology product acquisition, creating "market pull" for defense industries and their workforce,

-- $5.4 billion in 1994-97 to the Department of Labor for dislocated worker training, and

-- funding for the Department of Energy for training, employee assistance, and community assistance programs.

**EDUCATION DEPARTMENT**
1994 Budget Passback

**Stimulus (1993)**

- Chapter 1 Summer Programs. $500M for FY 1993 only. (No change from prior passback.) Appropriation language proposed so that at least 80% of the money is spent at the local level by Sept. 30, 1993.

- Chapter 1 Census Offset. $235M for 1993 only. Added since prior passback phone call. Provides partial offset for loss of funds in some areas due to shift from 1980 to 1990 Census data for fund allocations.

- Pell shortfall: 1993-1994 and prior years. No change from prior passback. $2.024B: $1.371B for old shortfalls; $.653B for 1993-1994. Fully funds current shortfall estimates through 1993-1994 school years.

**Investments (1994-1997)**

- Apprenticeship. No change in 1997: outlays of $495M. 1994 BA reduced from $450M to $270M since prior passback call. Labor and ED are collaborating on policy.

- Allowance for Reform and Initiatives. No change in 1997: outlays of $2.7B. 1994 BA reduced from $1.45B to $870M since prior passback. The allowance is for:

  -- Elementary and secondary: "Safe Schools"; Systemic School Reform; reauthorization of Elementary and Secondary Education Act; other programs.

  -- Postsecondary: Pell grants and other higher education programs.

**Non-Defense Discretionary Reductions. No change from prior passback.**

- Reform Campus-based Aid. Reduce BA for supplemental grants, loan capital, work-study $200M below 1993; freeze remaining $1.2B in outyears; give schools flexibility to shift funds among activities. Outlay savings: $275M in 1997.

- Phase-out Impact Aid "b". Three year phase-out of Impact Aid "b" payments to school districts. No cuts in the much larger "a" payments. Outlay savings: $145M in 1997.

o "Streamlining": Eliminate, restructure or reduce other programs. 1997 outlay savings: $620M, derived as follows (Secretary has discretion on how to achieve):

-- Eliminate consumer/homemaking.1997 outlay saving: $37M.
-- Reduce outlays one-third for 60 programs with less than $50 million in 1993 BA. 1997 outlay savings: $186M.
-- Freeze BA at 1993 level for most other programs. 1997 outlay savings: $398M.

**Entitlements**. **No change from prior passback.**

o Direct Loans. Legislation to expand and modify Direct Loan pilot with goal of full implementation of Direct loans in 1997. 1997 outlay savings: $1.3B. Prepare loan repayment options, including repayments adjusted to annual income, to permit more people to take low wage community service jobs.

o State Default Fee. States to share costs if default rate of students in State's schools exceeds 20 %. States may pass on costs to schools. 1997 outlay savings: $131M.

**Other**

o Across The Board Cuts. 1997 outlay savings: $71M. Savings from: FTE reductions (-50 in 1993, rising to -198 by 1995); lower administrative expenses; lower research costs per new policy to cut grantee overhead; no 1994 pay raise.

o Technical increases. Amounts increased over baseline. 1997 outlays: $135M. 1994 BA increase: $148M. Provides for: continuing Pell and student loan processing contracts; improvements in accounting systems; continuing planned expansions of statistics programs; National Assessment of Educational Progress, State-based and national assessments.

DEPARTMENT OF ENERGY
1994 Budget Passback

STIMULUS (1993)

o **Weatherization Grants.** Increase funding by $47 million to help weatherize homes of lower income households and create jobs quickly.

o **Federal Energy Efficiency.** Increase funding for DOE in-house energy management and Federal Energy Management Program Activities (by $13 million in FY93).

o **DOE Laboratories.** Increase funding for Cooperative Research and Development Agreement (CRADAs) at the National Laboratories by $47 million in FY93.

o **Institutional Conservation Program.** Increase funding by $19 million for model projects demonstrating energy conservation in buildings and industrial processes.

o **Alternative Fuel Vehicles.** Increase funding by $28 million for conversion to or acquisition of alternative fuel vehicles for Federal fleet.

INVESTMENT (1994-98)

o **Funding for Conservation and Renewable Energy.** Propose $3.5 billion over the FY 1994-98 baseline as part of the investment package, including:

-- $1.9 billion over 1994-98 for renewable energy and conservation R&D, most of which is intended for implementation of the Energy Policy Act;

-- $460 million over 1994-98 baseline for low-income weatherization grants; and

-- $292 million over FY94-FY98 baseline for DOE in-house energy management and Federal Energy Management Program (FEMP) activities, including an efficiency fund that DOE will administer on behalf of a number of smaller agencies.

o Government-wide, the buildings energy conservation program would increase by $94 million in FY 1994 and a total of $1.4 billion over baseline between FY 94-98.

- Government-wide, the buildings energy conservation program would increase by $94 million in FY 1994 and a total of $1.4 billion over baseline between FY 94-98.

- **Technology Transfer.** Add $30 million in 1994 for Cooperative Research and Development Agreements at the non-defense laboratories (for a total of $230 million above the baseline in FY 1994-98).

- **Other Energy R&D/Technology Increases.** Other technology initiatives above the baseline include increased fusion energy R&D funds, increased gas utilization R&D ($263 million between 1994 and 1998) and initiation of the Advanced Neutron Source at Oak Ridge ($1.2 billion between 1994 and 1998).

- **Environmental Restoration and Waste Management.** The clean-up program would be increased by three percent above baseline.

**SAVINGS**

- **Uranium Enrichment.** To pave the way for the creation of the U.S. Enrichment Corporation, one of the enrichment operating plants would be closed (located in Portsmouth, Ohio -- not Paducah, KY). Produces savings of 241 million in outlays in 1994 and $1.3 billion between 1994 and 1997.

- **Nuclear Reactor Research.** Stops nuclear reactor research considered commercially unviable. Produces saving of about $103 million in outlays in 1994 and $1 billion between 1994 and 1998.

- **PMAs.** We are withdrawing our debt payment reform proposal and BPA conservation initiative. We will retain a savings marker of $300 million BA in the outyears but the nature of the savings proposal is to be worked out with Congress.

- **Strategic Petroleum Reserve** (SPRO). We are proposing to reduce SPRO acquisitions by one-third. Currently, DOE adds about 20,000 barrels per day. (The 20,000 is acquisition for non-defense purposes; another 15,000 is acquired for defense purposes.) This proposal reduces acquisition to just over 13,000 barrels per day.

- **SSC Will Continue.** The SSC is funded at $108 million above the baseline in 1994 (total FY94 funding of BA $640 million). Baseline funding is assumed in the outyears. The project would be stretched out, adding about 3 years and $1.8 billion to the schedule. This stretch-out will provide a breather to review magnets and costs and evaluate current contractor, and fix any problems with cost and schedule controls.

**DEFENSE PROGRAMS**

- Total FY 1994 BA for DOE defense activities is $11.6 billion. Part of this ($5.5 billion) is for defense-related nuclear waste cleanup, which is funded at 3 percent above the baseline. This will require DOE to renegotiate some environmental compliance agreements it entered into with States and EPA and to undertake some reforms in the way it operates this program.

- All other defense activities related to weapons production, stockpiling, and testing are $1 billion below the FY 1993 level ($6.0 billion). This funding level conforms with prior decisions to stop producing and reduce testing of nuclear weapons.

- $100 million (part of the $11.6 billion above) is to provide assistance to workers and communities who lose jobs because of defense-related cuts for DOE.

**OTHER**

- **Streamlining/FTE Cuts.** Other cuts, which affect all Federal agencies, will also be taken in an effort to improve the efficiency and streamline the Department's administrative operations. This includes a reduction in the overhead allowance for grants to universities (from 26 percent to 22 percent).

- **Alaska Power Sale.** The Administration supports the sale of the Alaska Power Administration to the State and other publicly-owned utilities. No budget effects.

- **FCCSET.** Federal Coordinating Council for Science, Engineering and Technology R&D initiatives are funded above baseline.

February 16, 1993

**ENVIRONMENTAL PROTECTION AGENCY**
**1994 BUDGET PASSBACK**

**STIMULUS (1993):**

- **Watershed Resource Restoration Grants** -- provide $47M in 1993 BA in **Sec. 319 non-point source grants** pursuant to Administrator Browner's request.

- **Green Programs** -- provide $23M in 1993 BA to greatly expand EPA's existing "green programs" to promote energy efficiency and reduce greenhouse gas emissions pursuant to Administrator Browner's request.

- **Wastewater State Revolving Funds (SRFs)** -- provide $845M in 1993 BA to virtually complete the $18B authorization under the Clean Water Act.

**INVESTMENT (1994-97):**

- **$1 Billion per year for Drinking Water State Revolving Funds (SRFs) ($599M in 1994)** -- establish new drinking water SRFs to help municipalities comply with Safe Drinking Water Act requirements ($692M in 1997 outlays; $1,328M in 1994-97 outlays).

- **$2 Billion per year for Clean Water State Revolving Funds ($1,198M in 1994) Emphasizing Stormwater Projects** ($1,402M in 1997 outlays; $2,700M in 1994-97 outlays)

- **Environmental Technology** -- expand environmental technology research by $36M in FY 1994 BA and $1.85B over nine years ($127M in 1997 outlays; $271M in 1994-97 outlays).

- **Watershed Resource Restoration and Green Programs** -- investment funding for these items included in the stimulus package would be continued at $50M and $25M in BA per year respectively for 1995-97 ($30M and $15M respectively for 1994).

**PROPOSED REDUCTIONS:** (all Discretionary -- EPA has only minor Mandatory spending)

- **Completion of Wastewater Construction Grants** -- provide wastewater funding under current authorization ($150M per year) only to support NAFTA (including funding for colonias in Texas, New Mexico, and Arizona). Reduces 1997 outlays by $1,947M and 1994-97 outlays by $4,104M.

- **Increase Private Sector Superfund Financing** -- reduce funding by $118M in FY 1994 BA for EPA cleanups by increasing private sector cleanup activity through increased enforcement. Reduces 1997 outlays by $109M and 1994-97 outlays by $308M.

- **Eliminate One-Time Building Projects** -- would eliminate from the baseline two one-time building projects added by Congress to EPA's budget in 1993.

**CROSSCUTTING REDUCTIONS:**

- **100,000 FTE Reduction Savings** -- $17M in 1994 BA savings due to 2.5 percent 1994 FTE cut pursuant to Presidential Executive Order. EPA's share of the FTE reduction is 448 FTE in 1994 (-179 FTE in 1993).

- **Administrative Efficiencies** -- $8M in 1994 BA savings due to 3 percent 1994 administrative expense cut pursuant to Presidential Executive Order.

- **Pay Adjustment** -- $30M in 1994 BA savings due to changes in Federal pay assumptions.

- **Streamlining Savings** -- $34M in 1994 BA savings due to elimination of inflation from the baseline for object classes and programs not affected by other changes.

- **Other Crosscutting Reductions** -- $3M in 1994 BA savings due government-wide limits on R&D grant overhead and $1M due to FTS 2000 price reductions.

February 16, 1993

**Department of Health and Human Services**

**HHS-wide Talking Points**

To preserve maximum Secretarial flexibility to allocate resources, maintain consistency with Clinton priorities, and achieve deficit reductions levels, the following reductions may be allocated within HHS.

**Reduction of 100,000 Federal Positions**

- On February 10, 1993, the President issued an Executive Order reducing 100,000 Federal positions over the next three fiscal years. To achieve the President's goal by FY 1996, HHS' contribution is over 1,000 FTE in FY 1993 and over 10,000 FTE over FYs 1993-1996. At least 10 percent of the reductions shall come from the SES, GS-15 and GS-14 levels or equivalent.

**Deficit Control and Productivity Improvement in the Administration of the Federal Government**

- The President is committed to achieving real reductions in the administrative costs of Federal agencies. To meet this goal by FY 1997, HHS shall reduce its administrative overhead (defined as expenditures for contractual services and supplies) by approximately $150 million in FY 1994 and approximately $1.7 billion in FYs 1994-1997.

**Streamlining**

- To achieve the President's goal of streamlining agency programs, HHS's share of additional administrative reductions is over $300 million in FY 1994 and over $3 billion over FYs 1994- 1997.

**Stimulus (1993)**

- Head Start (Summer). An increase of $500 million to fund a summer Head Start program to help disadvantaged children retain the social and intellectual gains made during the school year.

- Ryan White Act. An increase of $200 million to respond to the President's pledge to fully fund the Ryan White Act.

- Immunizations. An increase of $300 million through the national vaccine program to finance vaccine purchase, certain personnel expenses, vaccine safety and research, the development of a national tracking system, and a community based outreach and information campaign.

- NIH Higher Performance Computing Applications. A $9 million increase to develop applications of advanced computer and networking technology for health care.

- Social Security Administration. A supplemental in FY 1993 for the Social Security Administration for purchase of computers and other equipment and processing disability determinations -- $302 million in FY 1993, $120 million in FY 1994, and $200 million in succeeding years.

**Investment (1994-97)**

- No specific amount has been set aside for reforming welfare.

- Head Start (Summer). Continues the summer Head Start program at $514 million in 1994.

- Head Start Program Growth. As pledged in *Putting People First*, this proposal begins fully funding Head Start. Head Start funding would increase by $785 million in 1994 and by $3.1 billion in 1997, and is complemented by Medicaid-related spending for child health and the Child Care feeding program in the Department of Agriculture's Child and Adult Care Food Program.

- Ryan White Act. A $120 million increase in 1994, with total additional funding of approximately $1.4 billion for 1993-1997.

- AIDS, Women's Health, Research and Other Public Health Initiatives. Includes an additional $1,272 million in 1994 for funding HIV/AIDS, women's health, and other priority research efforts; immunizing young children; and promoting public health.

- Low Income Home Energy Assistance. Funds will be sought to alleviate the impact of the energy tax increase on low income households. Added budget authority of $333 million in FY95, $667 in FY96, and $1 billion in FY97 and FY98.

- NIH High Performance Computing Applications. Includes an increase of $24 million in 1994 to continue the activities begun in 1993 to develop applications of advanced computer and networking technology for health care.

- Substance abuse treatment. A $90 million increase in 1994 to create treatment capacity where is it needed most and for hard-to-treat populations, especially pregnant women and women with children.

- Social Security Administration. A dedicated automation investment fund to improve service and productivity at the Social Security Administration of about $1 billion. Spending is estimated at about $145 million in FY94 and $245 million in each of the succeeding four years. This is above currently budgeted investment levels.

- Parenting and Family Support. Discretionary funds of $60 million in FY94 ($1.1 billion over FY94-97) will be set aside to respond to sensitive, emerging issues in parenting and family support, including activities that would help disadvantaged parents work with their children at home.

- Medicaid and AFDC State Administrative Expenses. Beginning April 1, 1994, match all Medicaid and AFDC State administrative expenses at 50%. Food Stamp match rates would also be set at %50. Limited hardship waivers will be available.

**Technical Adjustments to the Baseline**

- NIH Breast Cancer Research. The NIH 1994 baseline continues over $200 million for the breast cancer research funds that originally appropriated to the Defense Department in 1993. This policy fully funds the out-year costs of these multi-year grants.

**Entitlements**

- Medicare. Proposed changes have been discussed that would save $3.0 billion in FY94, $15.5 billion in FY97, and $53.9 billion over five years. Final details of the design and pricing of the SMI premium need to be resolved. (NOTE: These details involve savings of about $1 billion.)

- Medicaid. Proposed changes would save $225 million in FY94, $2.1 billion in FY97, and $8.7 billion over five years. The proposals would permit States to use prescription drug formularies to control growing drug costs, close loopholes that allow individuals to divest assets in order to receive Medicaid-covered long term care, and fix a technical error in OBRA 90 to remove the mandate that States cover personal care services.

- Child Support Enforcement. Expanded child support activities including those in *Putting People First* and many of the Interstate Commission on Child Support recommendations. The proposals are targeted to produce billions of dollars in increased child support collections and medical support. Federal savings are currently estimated at $27 million in FY94 and $505 million over FY94-98.

- Social Security Administration. Seek Social Security Act changes that would charge States a small fee for the administration of State supplements to the Supplemental Security Income program. The monthly fee would be $1.67 per beneficiary in the first year, $3.33 in the second year, and $5 in the third year.

**Non-Defense Discretionary Reductions**

- Health Professions Curriculum Assistance. Reduce funding for health professions curriculum assistance by $27 million in 1994, recognizing that most health professionals are no longer in short supply. Curriculum assistance grants targeted specifically for primary care, nursing, and disadvantaged assistance would receive funding increases.

- Food and Drug Administration User Fees. Collect $200 million in 1994 from the drug industry for the value conferred by FDA certification of the safety and effectiveness of drug, medical devices, and other FDA-regulated products.

- Reduce Overhead Rate on University R&D. Adjust the budgets for civilian R&D grant-making agencies to reflect an upper limit on administrative and facilities-related overhead charges, consistent with streamlining overhead in Federal departments and with *Putting People First*. The HHS share will save $223 million in 1994.

February 16, 1993

TALKING POINTS - INTERNATIONAL AFFAIRS

- Overall international affairs outlays have been reduced by $1.4 billion in 1994 and $2.4 billion during 1994-97.
- Within the amounts remaining, programs will be restructured to make funds available for key Clinton Administration foreign policy initiatives.
- Among the initiatives, greatest emphasis has been placed on programs to promote democracy abroad, particularly in the former Soviet Union. Funding for a Radio Free Asia is provided.
- The budget would make the United States current in its legal obligations to multilateral institutions and would meet all known needs for UN peacekeeping operations.
- Other major initiatives supported include non-proliferation activities, population control, the international environment, competitiveness, refugees and humanitarian emergency relief.
- Savings have been taken in traditional security assistance programs, which must be redesigned for the needs of the post-cold war world. Funding for countries involved in the Middle East peace process, mainly Israel and Egypt, will not be cut.
- Funding for Agency for International Development programs, particularly those that may export jobs, has been cut pending reorganization of that agency.
- International radio broadcasting will be streamlined with attendant savings, but Radio and TV Marti broadcasting to Cuba and will be maintained.
- Export financing for capital goods will be held level while the program, is reoriented for greater effectiveness.

February 16, 1993

**Presidential Decisions on the FY 1994 Budget**

**Talking Points -- Secretary Cisneros**
**Department of Housing and Urban Development**

o **STIMULUS:** President adopted most of the Secretary's stimulus proposals.

-- Expand the Community Development Block Grant (CDBG) with $2.5 billion in 1993 BA and modify to assure faster spending. Modifications include:

- Remove current restraints on public services spending;

- Enforce a strict recapture provision on any unspent CDBG stimulus funds after 1994;

- Provide the HUD Secretary authority to waive statutory or regulatory provisions that impede fast spending.

-- Accelerate HOME expenditures. (No new money.) New regulations and other options to accelerate expenditure of funds will be mutually developed by OMB and HUD staff.

-- Accelerate Public Housing Modernization expenditures. (No new money.) Shorten the grant-making process and streamline information requirements. HUD and OMB staff will work out details.

-- Add $423 million for HUD's Supportive Housing program. This expansion of HUD's homeless funding in 1993 is consistent with the Secretary's request in his February 3rd letter to you. The supplemental will include modifications to accelerate current slow spending, and will enforce a strict recapture provision for any stimulus funds unspent after 1994.

o **INVESTMENT:** President selected several HUD programs for special emphasis in his investment program. He added BA of $15.3 billion from FY 1994-1998 for HUD investments. (HUD 1997 outlays were increased $1.4 billion above the OMB baseline to accommodate these additional investments.)

-- Increase basic (non-stimulus) Community Development Block Grant (CDBG) program) by $90 million in FY 1994, and $150 million in FY 1995-1998. (+$690 million of BA 1994-1998; 1997 outlays of $4.4 billion are $137 million above the OMB revised baseline.)

-- Increase HUD's Low-Income Housing Preservation and Restoration programs. This increase assures that sufficient funds are available to preserve, rehabilitate, and restore the financial soundness of current low-income rental housing. (+$4.1 billion of BA 1994-1998);

-- Invest to assist more low-income households with housing. Expands two HUD programs: (a) increase rental assistance to 100,000 new housing vouchers in 1998 (from nearly 40,000 in FY 1993; gradual increase each year), and (b) double HOME grants to State and local governments to the full amount authorized ($2.2 billion in FY 1994; FY 1993 base is $1.1 billion), and maintain at that level through FY 1998. (+$6.8 billion in BA in FY 1994-FY 1998).

-- Invest more in homeless programs by increasing HUD's Supportive Housing Program by $180 million in FY 1994 and $300 million in FY 1995-FY 1998. This provides a more permanent solution to homelessness. (1997 outlays of $300 million are $138 million above the OMB revised baseline.)

-- Increase public housing operating subsidies. This increase will assure full funding of authorized operating subsidies for public housing units. Also includes reforms to eliminate paying subsidies for vacant units.

-- Fund Community Partnership Against Crime initiative. Funding for this new program will allow HUD to work with local public housing authorities in an intense effort to reduce crime in public housing. ($690 million in BA, FY 1994-FY 1998.

-- Increase funding for HOPE for Severely Distressed Public Housing initiative. This proposal increases the funds available for rehabilitating severely dilapidated public housing units from the level of $300 million in BA provided in FY 1993, to $483 million in FY 1994, and $600 million annually in years FY 1995-FY 1998. ($1.26 billion in BA, FY 1994-FY 1998; $374 million in outlays, FY 1994-FY 1998)

-- Fund HOPE Youthbuild initiative. This proposal provides resources to employ, train, and educate economically disadvantaged young adults in rehabilitating public and other low-income housing. ($48 million in BA in FY 1994, $368 million in FY 1994-FY 1998; $106 million in outlays in FY 1994-FY 1998)

o TAX INITIATIVE FOR HOUSING: As part of his tax package, the President has approved the following tax changes to support housing.

-- Extend the Low Income Housing Tax Credit permanently;

-- Extend Mortgage Revenue Bonds permanently;

-- Propose creation of enterprise zones. Treasury, OMB and HUD staff should work together to develop program details for final proposal similar to that in H.R. 11. President has approved tax expenditures of $1.2 billion in 1997 for enterprise zones ($2.4 billion tax expenditures between 1994 and 1997).

o **NON-DEFENSE DISCRETIONARY PROGRAM SAVINGS:**

To help meet his 1997 deficit reduction target, the President decided to reduce or reform several HUD programs. In addition, the President asks HUD to contribute its share toward government-wide savings initiatives. (Total estimated 1997 outlay savings are $1.5 billion below the revised OMB baseline.)

-- Eliminate funding for Special Purpose Grants. These were added in the 1993 Appropriations process as "pork" items. The unauthorized projects violate the principles of open and fair distribution of HUD resources, which were enacted in the 1989 HUD Reform Act.

-- <u>Modify administrative fees for Federally-assisted housing from 7.65 percent of rents to 6.0 percent of rents.</u> HUD fees are paid to local public housing authorities, which administer Federal housing subsidy programs. These fees substantially exceed the costs of the services the local entities perform. According to GAO and HUD studies, this proposal would gradually reduce these fees to a uniform level more consistent with service costs.

-- <u>Reallocate new construction funding from Public and Indian Housing and Elderly and Handicapped housing to HOME block grants.</u> This proposal increases flexibility of local communities without diminishing the number of housing units being assisted. Only 70 percent of HUD new construction funds are transferred to HOME because of the state/local match requirement in HOME.

-- <u>Reform HUD's preservation program</u> to eliminate excessively costly subsidies paid to private landlords to continue to operate rental units as low-income housing. Limits subsidy to the cost of a housing voucher. Also eliminates homeownership option.

-- <u>Government-wide savings.</u> HUD is asked to bear its share of reductions needed to achieve the President's goals of: (1) a reduction of 100,000 FTE in federal civilian employment and (2) an across the board reduction in certain administrative costs.

-- <u>Additional savings to streamline government.</u> In addition to the specific discretionary program savings the President has approved, the President asks that you plan to achieve additional savings to meet his objective of streamlining government.

Although these additional savings must be met in the aggregate (1997 outlay savings of $656 million for HUD), you may reallocate them among your programs to reflect the consolidation and efficiency steps you believe are most appropriate. My OMB staff are prepared to work with your staff to develop the necessary detailed budget allocations by program.

o **ENTITLEMENT SAVINGS:** These proposals save $227 million in BA and outlays for 1997.

-- FHA Insurance Reforms. Reforms will reduce insurance losses by removing legislative and regulatory impediments, and improving management. These reforms will re-establish the FHA insurance programs as effective government financing vehicles.

-- Propose GNMA REMICS (Real Estate Mortgage Investment Conduits). Reduces mortgage costs to borrowers by enabling intermediaries to match investor investment preferences more precisely. The government's charge for guaranteeing REMICS will capture some of the efficiency gain of a REMIC for deficit reduction. The rest will accrue to the homeowner.

February 16, 1993

**DEPARTMENT OF THE INTERIOR**
**FY 1994 BUDGET PASSBACK**

**STIMULUS:**

- Total BA of **$460M** ($745M requested by Secretary Babbitt), including:
  - -- **Enhanced Natural Resource Protection and Environmental Infrastructure** (+$349M), including the **National Parks** (+$230M), Wildlife Refuges (+$88M), and other Public Lands
  - -- **Bureau of Indian Affairs (BIA) school operations and Economic Development on Indian reservations** (+$88M)
  - -- **Historic Preservation repair and maintenance, National Park Service** (+$23M)

**INVESTMENT:**

- **Natural Resource Protection and Environmental Infrastructure** (+$160M in FY94 BA) including **National Parks**, Wildlife Refuges, and Public Lands
- **Bureau of Indian Affairs Dam Safety** (+$18M in FY94 BA)
- **Public land highways and Indian reservation roads** (+$32M in FY94 BA) funded through Department of Transportation's Highway Trust Fund

**PROPOSED REDUCTIONS:**

<u>Entitlements</u>:

- **Phase in increased Grazing Fees over four years to approximate fair market value** (Bureau of Land Management) (**-$22M in FY97** outlays; **-$48M in FY 94-97** outlays); Secretary would be given flexibility to negotiate higher fees consistent with these savings targets.
- **Permanently extend Hardrock Mining <u>Holding Fees</u>**; continues proposal similar to FY 1993 enacted (**-$80M in FY97** outlays; **-$320M in FY 94-97** outlays)
- **Institute Hardrock Mining <u>Royalty</u>**; based on **12.5 percent** of gross production phased in over <u>three</u> years (**-$277M in FY97** outlays; **-$471M in FY 94-97** outlays)
- **Permanently extend 50% Net Receipt Sharing for On-shore Oil, Gas, and Coal** Extracted from Federal Lands (not OCS); (-$45M in FY97 outlays; -$170M in FY 94-97 outlays).
- **Increase Recreation Fees**; would increase **existing fees** and add **new sites** at national parks, refuges, and public lands (**-$45M** in **FY97** outlays; **-$147M** in **FY 94-97** outlays); except at national park units, no increase greater than $3 per site or activity.

- **Implement a Federal irrigation water surcharge** (non-Central Valley Project) (-$15M in FY97 outlays; -$45M in FY 94-97 outlays)
- **Reform Commonwealth of Northern Mariana Islands Funding Agreement** (-$10M in FY97 outlays; -$31M in FY 94-97 outlays)

**Discretionary:**

- **Reduce construction funding for selected Bureau of Reclamation water** projects (-$42M in FY97 outlays; -$163M in FY 94-97 outlays)

- **Eliminate one-time Interior funding for disaster relief;** eliminates FY 1992 contingent supplementals (-$68M in FY97 outlays; -$250M in FY 94-97 outlays)

- **BIA Enhanced School Operations** (+$60M BA in FY94, +$60M in FY 97 outlays; +$240M in FY 94-97 outlays)

- **Indian Land and Water Rights Claim Settlements** (+$200M BA in FY 94, +$200M in FY 97 outlays; +$800M in FY 94-97 outlays)

**ACROSS-THE-BOARD CUTS PURSUANT TO PRESIDENTIAL DECISIONS:**

- **Pay adjustment** -$83M BA in FY94; due to Government-wide changes in pay.

- **FTE reduction** -$68M BA in FY94; FY94 FTE level of 75,989; -1,948 (-2.5%) from FY 93; pursuant to the Executive Order.

- **Other administrative efficiencies** -$40M BA in FY94; -3% pursuant to the Executive Order.

- **Limits on R&D Grant Overhead** -$2M BA in FY94.

February 16, 1993

**DEPARTMENT OF JUSTICE**
1994 Budget Passback

**Stimulus.** None planned.

**Investments/Crime Initiative.**

- Community Policing/"Cops on the Beat." $50M is provided in 1994 ($300M by 1997) to initiate a program to aid States and localities to enhance their community policing activities. Funds may be used to: recruit and hire new officers; provide special training; or support community programs to reduce crime. Program is consistent with last year's crime bill and "Putting People First."

- Police Corps. $25M is provided in 1994 ($150M by 1997) to establish a program that provides scholarships to would-be police officers in exchange for a commitment to service as a State or local police officer. Candidates would receive a yearly stipend for tuition, books, and expenses. Program is consistent with last year's crime bill and "Putting People First."

- Brady Bill/Criminal Records Upgrade. $25M is provided in 1994 ($50M in 1995 and beyond) to initiate grants to states to upgrade criminal records infrastructure and to establish a computer interface with the FBI's criminal records databases. Initial year funding will be split between grants to States and FBI startup and operating costs. Thereafter, grants to states will be increased and FBI operations will be funded. Program is consistent with last year's crime bill and recent Presidential support of Brady Bill.

- Detention and Care of Federal Prisoners. $199M over 1994 baseline ($274M by 1997) will help the Bureau of Prisons and Marshals to house and feed an increased number of detainees and prisoners and to meet higher room and board and medical costs. Also includes funds to open new prisons.

- All Other Law Enforcement. $91M over 1994 baseline ($126M by 1997) is provided principally to INS, and FBI to enable agencies to continue to improve their services. Among the increases are: 1) $9M for FBI's fingerprint identification improvement project (this would fully fund the Department's request); 2) $35M for detention/ deportation of criminal aliens by INS; 3) $10M for additional INS inspectors at land border ports of entry; 4) $8 million for improving INS data and communications capabilities; 5) $10M for implementation nationwide of the FBI's program to contract background investigations to former agents; 6) $11M for rent payments to GSA; and 7) $8M for the Community Relations Service to process and resettle Haitians and Cubans.

**Non-Defense Discretionary Reductions**

- DOJ Program Streamlining. The grant programs within the Office of Justice Programs (e.g., State and local drug grants) would be funded at 1993 enacted levels (-$17M from baseline in 1994) and funding for new law enforcement training facilities at Quantico, VA, for DEA would be eliminated (-$8M from 1994 baseline). The current training capacity at Quantico, coupled with facilities at Treasury's Federal law enforcement training center in Georgia (FLETC), provide sufficient resources to fulfill current Justice law enforcement training needs.

- Prison Construction. Limited new future construction is proposed for 1994 and 1995, and no new construction in 1996 and beyond (-$71M from 1994 baseline). Does not affect all construction projects currently planned and funded. This reduction is in recognition of the fact that there is an unobligated balance in this account of over $1.6B at the start of 1993 and significant progress has been made in reducing prison overcrowding. Prison overcrowding will be reduced to less than 10% by 1997 with funding already available for new construction. (Prison repair and modernization would be maintained at $114M in 1994 and adjusted for inflation through 1998.)

- Pay Adjustment. No pay raise in 1994 and pay raise reduced by one percent in each year, 1995-1997. Omit locality pay in 1994; implement revised locality pay system beginning in 1995. Savings $139M in 1994 and $340M in 1997.

- FTE Reduction. Implement Executive Order on 100,000 FTE reduction. Savings $82M in 1994 and $703M in 1997.

- Other Administrative Efficiencies. Implement Executive Order on Deficit Control and Productivity Improvement in the Administration of the Federal Government. Savings of $50M in 1994 and $189M in 1997.

**Entitlements**. None

**Other Items.**

- DOJ is requested to examine the feasibility of charging fees for processing various INS forms to offset part of the costs of land border inspection (the potential is about $7M annually) and to propose extending the land border crossing fee pilot project.
- DOJ is requested not to increase basic rates of pay for lawyers or law enforcement officers.

## DEPARTMENT OF LABOR

### STIMULUS

- o Emergency Unemployment Compensation: Policy is unchanged: extend the current program of 20/26 additional weeks of benefits through October 2nd. Those receiving benefits when the program ends will receive 15 additional weeks.

  -- Estimates include State administration costs.

  -- Language has been drafted so extension can be done through authorization or appropriations action.

- o Summer Youth Employment and Training: No change from prior passback. $1 B is added to existing funds available for the summer of 1993.

- o Community Service Employment for Older Americans: $32 M add-on would finance 5,300 job slots bringing the total slots up nearly to the 1993 authorized job slot floor of 70,000.

- o Worker Profiling: $14 M is included for FY 93 for enhanced counseling/labor exchange activity to help identify quickly and provide services to the structurally unemployed to get them back to work.

### INVESTMENT

- o Dislocated Worker Assistance: $40 M reduction in 1997 outlays (now $1.960 B). In FY 1994, $1.2 B (an $800 M reduction from the earlier $2 B level) is added to the baseline for a new comprehensive worker adjustment program (baseline is $725 M for Trade Adjustment Assistance and Economic Dislocation and Worker Adjustment Assistance acts). $2 B is added for FY 1995-98.

- o Summer Youth Employment and Training: No change to 1997 outlays ($625 M). The investment change reduced the 1994 additional amount from $625 M to $375 M (FY 93 stimulus is $1 B). FY 1995-98 is $625 M.

- o Community Service Employment for Older Americans No change in 1997 outlays of $35 M. The investment change reduced the FY 1994 add-on from $35 M to $21 M (FY 93 stimulus is $32 M). The FY 1995-98 level is $35 M.

- Worker Profiling: No change in 1997 (no outlays). An additional $9 M, the level after the investment change is provided in FY 94.

- Job Corps:

  -- 50/50 Plan: $41 M drop in 1997 outlays (now $202 M). Capacity will be increased by 50 centers (from 112 centers to about 162) by about the year 2001. Instead of $222 M, the program starts at $133 M in FY 1994 (an amount determined after the investment change); amounts vary in outyears based on DOL planning estimates.

  -- Maintenance: $5 M decrease in 1997 outlays (now $45 M). $30 M (as opposed to $50 M before the 40% change) is provided in FY 1994 and $50 M each year FY 1995-98 for backlogged maintenance and relocation costs at existing Job Corps centers.

- Youth Apprenticeship: A $5 M drop in outlays in 1997 (now $495 M). (Also being passed back to Education because the Secretaries are collaborating). Instead of starting at $450 M, FY 1994 will be $270 M level), rising to $500 M in 1995-98.

- One-Stop Shopping: No change to 1997 outlays ($250 M). $150 M provided in FY 1994 (as opposed to $250 M before the ratchet) and $250 M each year for FY 1995-98 for the Employment Service for a common point of access to information on jobs/job training in communities.

- Skill Standards: Covered in the_allowance for education initiatives. Funds are to establish a national system of voluntary skill standards.

- Staffing: An additional 365 FTE are added for the approved initiatives. The cost of those staff are to be absorbed in the amounts approved for the initiatives.

**ENTITLEMENT SAVINGS:** No change from prior passback.

- None.

**DISCRETIONARY SAVINGS**: No change from prior passback.

- o Streamlining: $53 M in FY 1994 is included in a lump sum that the Secretary can decide how to allocate.

  -- Amount derived by freezing at the FY 1993 appropriated level the Job Training Partnership Act (JTPA) programs for which increases were not requested.

**ACROSS-THE-BOARD FTE AND OVERHEAD REDUCTIONS**

- o DOL's FTE are reduced by 198 in FY 1993 and by 792 in FY 1995. The overhead cut is about $10 M in FY 1994 and $52 M in FY 1997.

February 16, 1993

**NATIONAL AERONAUTICS & SPACE ADMINISTRATION**
1994 Budget Passback

## Stimulus (1993)

- <u>Networking and Computing Applications</u>. NASA will receive $5M in 1993 as part of a four-agency effort to accelerate high performance computing applications as proposed in Senator Gore's Information Infrastructure and Technology Act (S.2937). Funding will continue in 1994-1998 as part of the Administration's investment package.

## Investments (1994-1997)

- <u>Crosscutting High Performance Computing.</u> Continues funding in 1994-1998 for the four-agency program to accelerate high performance computing (HPC) applications ($12M in 1994 growing to $50M in 1997).

- <u>Civil Aviation Research</u>. Augments NASA aeronautics research to support the development of technologies for high-speed and subsonic civil aviation ($57M in 1994 growing to $247M in 1997).

- <u>Short-haul Aircraft Research</u>. Augments NASA aeronautics research to support the development of technologies for short-haul aircraft ($5M in 1994 growing to $20M in 1997).

## Non-Defense Discretionary Savings

- <u>Redesign Space Station and Add New Technology Investments</u>. Provides $588M in 1994 and $643M in 1997.

  -- <u>Redesign Space Station</u>. The current Space Station design ($100 billion future mortgage) is fraught with cost overruns and its capabilities have been dramatically reduced from that promised originally. This proposal would redesign Space Station with a less expensive approach that achieves many of the research goals. This would include the creative use of the Shuttle and increased manned space cooperation with the Russians.

  -- <u>New Technology Investments</u>. Provides a broad range of investments in space transportation, space science, space technology, aeronautics, and institutional technology areas. These investments will help chart a new course for NASA and can provide a more meaningful contribution to the U.S. economy. A major component includes smaller science missions that cost less and provide results sooner.

- Government-Wide Reductions. Government-wide FTS 2000, FTE, pay, R&D grant overhead, and other administration efficiency savings. This saves $140M in 1994 growing to $387M in 1997.

## All Other NASA Programs

- All other programs (like Mission to Planet Earth, Cassini, and the Space Shuttle) are funded at the requested level.

## Summary

- Would like to strengthen NASA by making a valuable investment in new technology, simplify the space station, and place NASA on a steady, sustainable budget growth path.

February 16, 1993

**DEPARTMENT OF TRANSPORTATION**
**FY 1994 BUDGET PASSBACK**

## Stimulus Spending (1993)

- Highways. Fully fund ISTEA (1993-97), including a $2,976 million supplemental in 1993.

- Transit. Increase transit program by $752 million over the baseline for 1993. Of this increase, $270 million would be earmarked for discretionary program bus and van purchases and the remaining $482 million would be spent on formula-allocated capital grants.

- Airport Grants. Provide an increase of $250 million in obligation limitation to fund fully the 1993 authorizations (from $1,800 million to $2,050 million).

- Amtrak. Provide increase of $188 million in 1993 for Amtrak capital projects.

## Investment Spending (1994-98)

- Highways. In addition to providing full-funding for ISTEA in 1994-1997, provide additional funds (above ISTEA) for Public Lands Highways and Indian Reservation Roads: +$36 million in 1994, increasing to +$240 million by 1997. 2.5 cents of gas tax currently planned for deficit reduction will be diverted to the Highway Account of the Highway Trust Fund starting on October 1, 1995.

  Also, increase "smart cars/smart highways" funding by $70 million in 1994, reaching $100 million over the baseline by 1997. This increased Intelligent Vehicle Highway System (IVHS) funding is for accelerated operational tests, increased research and development, advanced technology development (e.g., artificial intelligence applications), and acceleration of the National Advanced Driving Simulator and Automated Highway System.

- Transit. Provide increase of $600 million over the baseline in 1994 and $1.0 billion in each year from 1995-1998 for formula-allocated capital grant programs.

- Airport Improvement Grants and Air Traffic Control Modernization. The Federal Aviation Administration's (FAA) Airport Improvement Program would be increased by $30 million in 1994 and $50 million per year thereafter over the baseline. The air traffic control modernization program would be increased by $120 million in 1994 and $200 million per year thereafter over the baseline. This will enable the FAA to continue to address critical equipment deficiencies and prepare for future air

## Defense Discretionary Reductions

- Maritime Administration- Ready Reserve Force. Ready Reserve Force funding (function 054) is reduced to $234 million in 1994 and in 1997. This reduction is below the baseline by $221 million and $270 million, respectively, and reflects the overall cut in defense spending.

- Maritime Military Useful Loan Guarantees. This program is zeroed out in all years from 1994 through 1998. Savings of $54 million in 1994 and $59 million in 1997.

## Entitlements/Revenues

- General Aviation Fees. This will assess the general aviation community for more of the costs they impose on the aviation system. Aircraft registration and renewal fees are proposed to be increased on a graduated basis over four years, reaching $270 per aircraft by 1997 (yielding $18 million of fees in 1994 and $58 million in 1997 fees.)

traffic growth.

- Maglev/High-Speed Rail. Release ISTEA contract authority in 1994-1997 (+60 million in 1994, +$175 million in 1997) and provide an additional $575M in budget authority in 1994-1998 ($75 million in 1994, $125 million in 1997). These funds may be spent either on high-speed rail or maglev, whichever the Secretary finds to be superior. This requires a legislative change regarding ISTEA funding.

- Alcohol Safety and Other DOT Capital. Increase funding by $67 million over the baseline in 1994 and $100 million in 1995-98 to reduce alcohol-related traffic accidents, increase the use of safety belts and motorcycle helmets, and improve oil pollution abatement capability by replacing outdated equipment.

**Non-Defense Discretionary Reductions**

- Transportation Lower Priority Programs. Reduce funding for lower priority programs and projects totaling $361 million in 1994, going to $389 million in 1997. As one among several examples of possible reductions are highway demonstration projects.

- Airport Operations. FAA Operations would be reduced by $62 million per year below the baseline to reflect the FAA's transition from a period of expanding its workforce due to rapid air travel growth to a period of slower growth and stable workforce.

- DOT Streamlining. Several DOT grant and contract programs are frozen at 1993 enacted levels (e.g., a portion of FAA research and development, motor carrier safety, and several small, outmoded railroad grant programs are terminated). Savings of $23 million in 1994 and $46 million in 1997.

- Civilian Pay Adjustment. No pay raise in 1994 and pay raise reduced by one percent in each year 1995-97. Omit locality pay in 1994; implement revised locality pay system beginning in 1995. Savings of $128 million in 1994 and $313 million in 1997.

- Military (Coast Guard) Pay Adjustment. No pay raise in 1994 and pay raise reduced by one percent in each year 1995-97. Savings of $37 million in 1994 and $90 million in 1997.

- FTE Reduction. Implement Executive Order on 100,000 FTE reduction. Savings of $67 million in 1994 and $131 million in 1997.

- Other Administrative Efficiencies. Implement Executive Order on Deficit Control and Productivity Improvement in the Administration of the Federal Government and realize savings in FTS 2000 contract costs. Savings of $32 million in 1994 and $151 million in 1997.

**DEPARTMENT OF THE TREASURY**

Talking Points for Passback

Stimulus

**Internal Revenue Service -- Tax System Modernization (TSM) Acceleration:** The President has approved an additional $148 million in FY 1993 to accelerate the IRS's TSM projects and other ADP equipment replacement schedules. TSM is an ongoing, $8 billion, decade-long (FY1990 - FY2001) effort to modernize the IRS.

Investment

**Internal Revenue Service -- Tax System Modernization (TSM) Increase (1997 outlays plus $696 million above baseline):** The Budget will provide funding of $2.1 billion above the baseline during the FY 1994 - FY 1997 period; $98 million in FY 1994, increasing to $731 million in FY 1997 for IRS Tax System Modernization (TSM) projects.

Over the long term, TSM will modernize IRS functions, allowing the IRS to move from an antiquated and disjointed computer system to an up-to-date, automated approach to processing taxes. TSM will enable IRS to reduce the risks and costs associated with maintaining its current systems. It will deliver productivity savings, reduce burden placed on public, and support improved compliance efforts.

**Community Development Banks (1997 outlays plus $110 million above baseline):** The Administration will propose funds for community development banks to provide loans in distressed communities where capital sources are limited and discrimination in lending may be prevalent. This program has been placed in Treasury, although the final determination has not been made regarding which agency should have authority for the program. Assumes funding of $60 million in FY 1994, increasing to $111 million in FY 1997. OMB and Treasury staff need to work out details.

Non-Defense Discretionary Savings

**Bureau of Alcohol, Tobacco and Firearms (BATF) -- User Fees:** Alcohol label processing and laboratory analysis fees, producing an estimated $5 million annually will be proposed to cover the costs of these BATF activities.

**Government-wide Savings:** The President expects the Treasury to bear its share of the savings necessary to achieve his objectives for (1) reducing Federal civilian employment by 100,000 FTE and (2) cutting administrative expenses.

**Additional Savings from Streamlining Government (1997 outlay reductions of $68 million from revised OMB baseline):** In addition to the previously described specific changes to your programs the President has approved, the President asks that you plan to achieve additional savings to meet his objectives for streamlining government. Although these additional savings must be met in the aggregate, you may reallocate them among your programs to reflect the consolidation and efficiency steps you believe are most appropriate. My OMB staff are prepared to work closely with your staff to develop the necessary detailed budget allocations by program.

<u>Technical Adjustments to Non-Defense Discretionary Savings</u>

**Internal Revenue Service -- Revenue Initiative:** The President has approved an additional $150 million and 2,000 FTE (3,200 positions) to raise revenues through additional audits and collections of tax debts. This will allow IRS to pursue, among other issues, non-compliance by foreign-controlled corporations. OMB, Treasury and IRS staff should work together to develop an initiative package so that the highest feasible yields from this investment are realized.

<u>Entitlement Savings</u>

**United States Customs Service -- Merchandise/Passenger Processing Fees Extension:** The Merchandise and Passenger Processing Fees due to expire in FY 1995 will be extended through FY 1998. The extension of these fees collected by Customs to cover some of the costs associated with processing passengers and merchandise are expected to increase revenues by approximately $550 million per year.

The passenger fee assesses a flat charge on international air and sea passengers arriving in the U.S., and other fees on certain commercial conveyances. The merchandise fee is a capped ad valorem fee assessed on the value of commercial imports at entry.

**United States Customs Service -- Overtime Reform:** Overtime reform legislation will be proposed to curb current overtime abuses in Customs' Inspector overtime compensation provisions. It will reduce overtime costs by about $18 million annually. The Passenger Processing Fee, which currently pays for inspector overtime and other processing costs, will also be changed to allow these savings to be realized for deficit reduction.

**United States Customs Service -- Enhanced Harbor Maintenance Fee collections:** Legislation will also be proposed to provide Customs with $5 million from the existing Harbor Maintenance Trust Fund for enhanced enforcement of Harbor Maintenance Fee collections. Customs collects these fees for the Army Corps of Engineers subject to appropriation. Currently these fees are used to offset Corps costs of maintaining harbors. The savings resulting from the enhanced enforcement ($10 million in FY 1994 increasing to $65 million by FY 1997) will be used to reduce the deficit.

**Shorten Maturity of Debt Securities ($3.9 billion outlay reduction from 1997 baseline):** This figure represents an estimate of interest cost savings that might result from a potential shortening of the maturity of securities issued by the Treasury. The Treasury Department is currently conducting a study of the appropriate maturity composition of the Federal debt. Within the next few months, the study will be completed and OMB will be provided with updated estimates of cost savings, consistent with the Treasury's policy conclusions.

<u>Addendum</u>

**Multinational Development Banks:** Provides all multilateral development bank (MDB) arrearages and all current MDB commitments including the new funding for the World Bank's International Development Association (IDA).

**Assess Examination Fees for State-chartered, FDIC-insured Banks:** This proposal would eliminate an incentive for banks and thrifts to shift from Federal to State charters in order to avoid OCC and OTS examination fees. FDIC and Fed supervised State-chartered banks would pay the same fees as national banks, but that they also be allowed to take credit for amounts they pay to State regulators.

## VETERANS AFFAIRS (VA)

**Stimulus (FY93):**

- Facility maintenance backlog: $235m (v. $250m before stimulus cut) for non-recurring maintenance and repair projects that can be completed quickly in medical facilities and cemeteries.

**Investment:**

- Medical Care -- FY97 outlays are $800m above baseline. FY94 outlays are $280m above baseline to help support initiatives such as:
  - compliance with **residency workload limits**
  - continued implementation of **automated drug dispensing**
  - **activation of new facilities.**

**Entitlement Savings: No change from prior passback**

- Proposals are largely permanent extensions of laws now in effect:
  - IRS match on income reported by pensioners (OBRA 90) savings begin in FY98.
  - $90 for pension recipients in Medicaid nursing homes (OBRA 90) savings begin in FY98.
  - $2 per prescription copayment (OBRA 90) savings begin in FY98.
  - Medical care cost recovery from third parties (OBRA 90) reduces outlays by $407m in FY97 from the baseline.
  - Housing loan fee of 2% (increase similar to OBRA 90) reduces outlays by $157m in FY97 from the baseline.

-- 2.5% fee and 10% downpayment for second and subsequent use of housing guarantee reduces outlays by $17m in FY97 from the baseline.

-- Resale losses considered in housing program (93 approp) saves $21m in FY97 from the baseline.

-- Restoration of 9:1 contribution ratio in GI bill program reduces outlays by $98m in FY97 from the baseline.

-- Excess funds used to pay administrative costs in insurance programs saves $31m in FY97 from the baseline.

Discretionary Spending Reductions

o Medical Care:

-- Only one savings initiative -- use a prospective payment system to allocate resources; designed to promote better use of resources in the base; savings from the baseline: FY94--$100m: FY97--$400m.

-- Net result of investment and savings -- In FY97, total outlays are $277m below the baseline. For 94, the BA mark is $606m above the 93 enacted level.

-- "Comparable $1b increase" for Medical Care -- The FY93 stimulus ($220m estimate for Medical Care) and the 94 increase of $606m total over $800m above the current FY93 funding level. The pay freeze will save VA $200m. Therefore, the $800m is comparable to previous $1b increases that included pay raises.

o Construction: **No Change from prior passback**

-- Long term: investments to be considered through the Health Task Force.

-- Short term: In 97, outlays are $134m below the baseline. 94 BA level is $362m, $131m below the 93 enacted level. Funds to be used in accordance with two broad guidelines:

  o Projects are to be fully funded so that they do not mortgage the future.

- o Planning process must take into account factors that are critical to stemming VA and national health care costs: health care resources available in the community, veterans' consumption of VA health care, and how the project fits into the VA medical system as a whole.

**Across-the-Board Reductions**

- o Overhead outlays have been reduced from the baseline by $14m in FY94 and $70m in FY97. "Overhead" cost categories that included **program activities were exempted from the cut** (e.g., contract nursing home care in the medical account).

- o FTE has cut of 2,304 in FY93 and 9,216 in FY97.

  - -- Impact of **across-the-board FTE cut was partially offset** by adding staff for Investment and other priorities before the cut was taken.

**NATIONAL SCIENCE FOUNDATION**
1994 Budget Passback

## Stimulus (1993)

- Research and Development. Attempts to restore NSF's research activities to the requested FY 1993 level. The focus will be on investment in fundamental research, including strategic areas such as understanding the climate system, advanced supercomputers and digital computer networks, biotechnology, materials processing, advanced manufacturing, and math and science education. This proposal includes $188 million in FY 1993.

- Network and Computing Applications. To develop applications using advanced computers and communication networks in fields such as health care, education, manufacturing, and access to libraries. This proposal includes $19 million in FY 1993.

## Investments (1994-97)

- Crosscutting high performance computing. To continue the investment made in the Stimulus package focused on developing applications using advanced computers and communication networks in fields such as health care, education, manufacturing, and access to libraries. This investment includes $36 million in FY 1994 and $150 million in FY 1997.

- Research and Development. Augments NSF's support for competitively awarded scientific and engineering research activities at U.S. universities and colleges, including fundamental research in such areas as understanding the climate system, advanced supercomputers and digital computer networks, biotechnology, materials processing, advanced manufacturing, math and science education. This investment grows from $331 million in FY 1994 to $1,054 million in FY 1997.

## Savings.

- Government-wide Reductions. Government-wide reductions in pay, FTE, administration efficiency savings, and limits on R&D grant overhead will save $66 million in FY 1994 and $79 million in FY 1997.

February 9, 1993

TO: Katie McGinty
Director, Office of Environmental Policy

FROM: Jonathan Wiener JW
CEA (x.5012)

SUBJECT: Forests Conservation in the FY'94 Budget

As you requested, attached is a draft paper explaining why forests conservation is worthy of investment in FY'94, and the funding that could be provided (an agency breakdown, with offsets).

This builds on the work we have done in assembling "FFI," but suggests a bolder and improved approach in several areas.

My understanding is that what OMB will be passing back to agencies (today?) currently contains: $50 million additional for international forest conservation in the USDA/Forest Service, but no additional funds (above FY'93 adjusted for inflation) for this function in EPA or other agencies.

- This would be a reduction from the $150 million proposed at Rio.

- As requested by the transition team, USDA/FS has drawn up a breakdown of how it could usefully employ at least $50 million in additional funds for international forest conservation. I believe other agencies could do similarly. Of course, the philosophy is to invite proposals by interested countries and organizations, not dictate to other countries from Washington.

- As Tom Lovejoy pointed out, putting all the eggs in the USDA/FS basket may not be ideal. EPA, Interior, State and AID each bring special expertise and capabilities. Hence the attached funding breakdown includes funds in other agencies (as well as the $50 million in USDA/FS).

draft 2/9/93

# BOLDER and BETTER FORESTS CONSERVATION

**Significant emphasis and funding for better forest conservation is critically important:**

- **The U.S. must "[e]xert international leadership to advance our own nation's interest in a healthier global environment, a stable global climate, and global biodiversity. ... Explore partnerships and joint ventures with developing countries to preserve and protect rainforests ..." (Putting People First (1992), pp. 94-95, 98.)**

- Valuable forest resources are under stress:

  -- **Tropical forests** are being lost at over 17 million hectares (42 million acres) per year (FAO 1990). This rate is over 35% faster than in 1980, and is still rising: by 1992 it appears to have accelerated to 19 million hectares lost per year. Every minute an area of forest the size of a football field is lost.
  Tropical forests occupy less than 7% of the world's land area but harbor 50% of the Earth's biological diversity.

  -- **Temperate and boreal forests** in Europe are degraded by air pollution, especially in Eastern Europe, sometimes suffering die-backs of 25% or more. Forests in Russia are under imminent threat of unmanaged logging.
  While U.S. forests are stable in total area, they are often highly fragmented, and there is pressure to harvest the last old-growth areas.

- Much forest clearing and fragmentation is **uneconomic** as well as ecologically unwise. It is the result of perverse economic incentives (such as tax rules, subsidies and property tenure rules) that encourage permanent conversion of forest lands to non-forest uses, and of managing forests for timber value alone rather than for the full range of biological resource values.
  Forests provide valuable biodiversity (in addition to valuable nuts, berries, and fibers, about 40% of medicines in use today are derived from forest plant and animal species), store greenhouse gases (acting as a sink for about a half of the greenhouse gases emitted by humans), prevent erosion, filter the air, and are homes to native peoples.

- The U.S. has proposed and begun **an initiative on forests conservation -- "FFI"** (see below). That initiative is important and visible. It could be improved; it could be bolder and better, more creative, more effective. Stopping or scaling back now would send the wrong signal, damaging

U.S. diplomatic credibility, undercutting the credibility of the pledge to "explore partnerships to protect rainforests" (above), and setting back the effort to conserve the Earth's dwindling forests.

**The "Forests for the Future Initiative" (FFI)**

o At the G-7 Summit in July 1990, the U.S. led the call to action on global forests conservation, urging that a global forests convention be negotiated by the Rio Earth Summit. Those negotiations produced the Statement on Forest Principles adopted at Rio, but not a legally binding agreement because important forested countries like Malaysia and India objected to international mandates on their natural resources.

o At Rio (June 1992) the U.S. redoubled its emphasis on the urgent need for better conservation of the Earth's forests. In the **"Forests for the Future Initiative" (FFI)**, the U.S. proposed not a universal global agreement but a **cooperative approach of work with those countries and organizations interested in achieving prompt progress on forest conservation.**

-- In FFI, the U.S. proposed a goal of halting the loss of the Earth's forests by 2000, and called for a worldwide doubling of forest conservation assistance (to $2.7 billion annually) to meet that goal through "cooperative partnerships."

-- As a downpayment, the U.S. promised in FFI to offer **$150 million** in additional international forests conservation assistance in FY'94 (above the $120 million in bilateral forest conservation assistance planned in FY'93). The January 6, 1993 budget statement included this $150 million increase for FFI, to be placed in the USFS and EPA budgets for FY'94.

-- FFI began in 1992-93 through **"Initial Partnership Activities"** with eight countries (Belize, Brazil, Ghana, Guatemala, Indonesia, Mexico, Papua New Guinea, and Russia) and two international organizations (ITTO and FAO). Funding for these Initial Activities totals $16 million in FY'93, from USFS, AID, EPA and State. These FFI activities embody several innovative approaches to forest conservation and also include action on U.S. forests. (See FFI booklet, Jan. 1993.)

o **The opportunity now exists to improve on FFI, to make it bolder, more creative, and more effective.**

## Improving on FFI: toward a "New World Arbor" ?

- **Sustain or enlarge funding.** The $150 million recommended for FY'94 is important for international forests conservation, yet would be a minor increase in the context of the Federal budget. Stepping back would send the wrong signal. *A funding breakdown and offsets are suggested in Table 1 below.*

- **Leverage funding through cost-share challenges to private industry.** USG funding should in part be offered in the form of cost-share challenges -- matching funds -- to private partners such as industry and foundations.
  - Pharmaceuticals manufacturers will invest in biodiversity conservation (similar to the Merck-INBio deal in Costa Rica).
  - Electric utilities will invest in carbon storage (as they are starting to do today in Russia, Guatemala, Malaysia, and Paraguay), driven in part by Title 16 of the Energy Policy Act of 1992, the "joint implementation" provision of the Climate Convention, and state utility commission policies. EDF and AES are working to expand such GHG-offset activities by utilities.

  Through cost-sharing, the government (i) builds financial support outside the federal budget, (ii) borrows the skills and self-interest of the private partner -- a bottom-line-conscious entity putting up its own funds -- to help evaluate activities, select those of real promise, and monitor program activities to ensure performance.

- **Increase public and NGO input.** Host a series of workshops involving conservation groups, business groups, and other members of the public to inform forests conservation choices and approaches. Invite these groups to propose activities for funding. Attention should be given to the views and needs of local communities who use the forests, both in developing countries and in the US.

- **Invite proposals from interested countries and organizations.** Instead of deciding within the confines of the USG what activities to fund and then telling foreign countries our decisions, US forests conservation efforts should pursue a cooperative, partnership approach. The US should publish general criteria for the activities it would like to participate in, and then invite interested countries and organizations to submit proposed activities.

  This approach helps (i) lessen concerns about sovereignty and the "donor-recipient" dynamic; (ii) maximize scope for creativity and effectiveness by motivating and selecting best proposals; and (iii) increase the chance for local enthusiasm that will carry the conservation activity forward along with (and after) USG support.

As a corollary, NGOs should be seen as potential partners in carrying out activities; not all activities should be government-to-government. NGOs often have the best on-the-ground expertise and long-term perspective. Several of the FFI "Initial Partnership Activities" already involve NGOs (e.g. WWF, EDF).

- **Small grants.** Establish a small-grants window for direct assistance to information/awareness, community-based development, and other activities of community groups, local organizations and native peoples.

- **Address all forest types.** All forest types in all regions of the planet, including temperate and boreal forests in the Northern hemisphere, are in need of better management. Moreover, developing countries often see calls to "save the tropical forests" as a combination of disproportionate blame for forest problems and a North grab to lock up the South's sovereign natural resources. US efforts should thus address all forest types in all areas.

- **Work toward incentive-based policy reform.** Much forest loss is the result of perverse policies that are economically wasteful as well as ecologically unwise. These include tax subsidies for clearing land, property rules that grant ownership only upon clearing land, absence of property rights (thus motivating itinerant clearing and short-term use of land), and so forth. Below-cost sales in the US are another example. Studies indicate that in some countries forest depletion is substantially diminishing net national income.

  US policies should work to help countries understand the economic losses their policies entail, and to reform those policies in ways that are both environmentally and economically sound.

- **Improve management of US forests.** Conservation of US forests is important and needed, and shows that the US is taking to heart what it is asking other countries to do. As part of FFI, USFS and BLM instituted an "ecosystem management" in June 1992 across all federal forests. This new approach emphasizes management of forests for their total resource value, including recreation, wildlife and biodiversity as well as timber. One consequence will be the phase-out of clearcutting as a standard timber harvest practice on the federal forests.

  More progress could be made on US forests, including: ensuring sound implementation of "ecosystem management"; phasing out below-cost timber sales; changing from a "gross" to "net" basis the share of timber sales receipts received by counties; reducing road building and other fragmentation; holding a summit on Pacific Northwest timber issues; targeting afforestation under incentive programs like the Conservation Reserve Program.

- **Continue multi-agency approach.** A key feature of FFI has been to bring together all the relevant US forests agencies, international and domestic, to share ideas and learn from one another. In the new Administration, the Department of Interior (esp. the Park Service and Fish & Wildlife Service, which already conduct conservation activities overseas) would seem a likely candidate to increase its domestic and international efforts at forest conservation.

  A new multi-agency Task Force, similar to the FFI Task Force, should be established, chaired by a Cabinet-level or other Senior official. "Cluster group" organization should be continued.

- **Fund through domestic agencies with line expertise.** Putting the funding in the already-growing international activities of USDA/FS, DOI, and EPA ensures that the funding is truly new and not just rearrangements of existing Overseas Development Assistance (ODA). It also builds on the expertise of these agencies in biodiversity conservation, forest and park management, and greenhouse gas sequestration -- key aspects of innovative forest conservation approaches.

- **Work with the Congress.** Congress will want to be persuaded of the value of this activity for domestic constituencies; presentations by conservation groups (e.g. WWF, IUCN, EDF, WRI) and private sector partners (e.g. pharmaceutical companies, electric utilities) could be influential.

  Also, Committees will be concerned about funding international activities through domestic agencies. (i) This is not a new concept; USDA/FS and DOI have conducted forest conservation efforts abroad for decades, and EPA/OIA has existed for 20 years and funds successful programs in China and Poland; (ii) the USDA/FS role was made formal in the 1990 Farm Act, which elevated international forestry to a full fourth component of the agency's strategic mission; and (iii) the involvement of all types of agencies reflects the seamless global nature of environmental issues, in which the distinction between "domestic" and "foreign" no longer really applies. We all benefit from global forests conservation.

- **Involve additional industrialized countries.** An initial goal of FFI was to double worldwide international forest conservation assistance to $2.7 billion. More needs to be done to bring other countries into the effort.

**Table 1**

"New World Arbor"
FY'94 Budget proposal

| Agency | Additional FY'94 for Forests/NWA | Available funds via FY'94 Offsets | | Uses of funds |
|---|---|---|---|---|
| USFS | 50 | Reduce timber salvage surplus<br>No new USFS roads for timber harvesting | -100<br><br>-100 | Sustainable mgmt.<br>Biodiv. conservn.<br>Research<br>Training |
| EPA | 20 | Superfund cuts | - 20 | GHG sequestration<br>Biodiv. conservn. |
| DOI | 50 | Market pricing of grazing land<br>Market pricing of water<br>Market pricing of mining land | - 5<br>-500<br>-600 | Park mgmt.<br>Biodiv. conservn.<br>Training |
| State/AID | 30 | | | Sustainable mgmt.<br>Biodiv. conservn.<br>Research |
| | 150 | | | |
| + Cost-share matching funds | 50 | | | |
| **Total** | 200 | | | |

*<u>Alternate/additional source of funds</u>: Farm subsidy gambit.

Links the issues of farm subsidies and the environment; forces Europe to give on one or both.

(1) Argue that crop output and export subsidies are bad for the environment. Output subsidies induce run-off pollution; Europe's higher subsidies have led to pesticide and fertilizer use per acre that are several times the US average. Export subsidies, meanwhile, undercut developing countries' farm products and keep them from earning a fair return in world food markets, thus chaining them to a pattern of low-value itinerant agriculture that involves substantial forest clearing.

(2) Announce that the US will pledge X percent of its reduction in farm subsidies under the GATT to international forest conservation, if the EC will do the same. Since the EC spends about 4 times more on crop subsidies than the US, for an equal percentage of a roll back in farm subsidies, the EC would need to contribute 4 times more to forest conservation. E.g. the US would pledge 5% of a GATT rollback to forests; for a 50% rollback by both sides, the US share would be 5% times $8 billion rolled back = $400 million, and the EC share would be 5% times $40 billion rolled back = $2 billion.

Europe can point out the unequal dollar amounts that this proposal would generate, but only by highlighting its own disproportionately large subsidy levels. Or Europe can refuse to play, thereby refusing to help conserve forests. The pressure is on Europe to help out in either trade or forests or both.

# U.S. House of Representatives
## Committee on Natural Resources
## Washington, DC 20515-6201



February 7, 1993

The Honorable Albert Gore, Jr.
Vice President
Attention: **Ms. Katie McGinty**
The White House
Washington, D.C. 20500

Dear Mr. Vice President:

I am enclosing for your review a copy of a memorandum prepared by our deficit reduction working group in the House. This memorandum outlines several administrative, management and policy reforms available to the Administration and the Congress for achieving significant deficit reduction.

The memorandum was prepared for the President following your meeting with the Whip organization last Thursday. Together with the other signatories, I am hopeful it will be of use to you and the Administration in developing a sound deficit reduction package.

Please do not hesitate to contact me or John Lawrence, my administrative assistant, if we can be of further assistance.

With best wishes,

George

GEORGE MILLER
Chairman

February 5, 1992

**To: The President**
**(Copy: Director, Office of Management and Budget)**

**From: Congressman George Miller**
**Congressman Mike Synar**
**Congressman Charlie Stenholm**
**Congressman Dan Glickman**

**Subject:** ***Options for Deficit Reduction***

During the meeting of the House Democratic Whip organization on February 4, you requested that we forward to you a series of budget options developed by our House working group on deficit reduction.

The following preliminary considerations offer you a very substantial source of supplemental revenues for the budget package. Some of these options represent administrative and management improvements in Executive agencies or departments. Others represent savings attributable to policy changes, some of which have received favorable attention from the House of Representatives in the recent past. Cost savings are not available in each case, and some savings levels are not agreed upon. However, precise levels of savings could easily be developed by OMB, CBO and Committee staffs.

Although some of the savings are "small" by Washington standards, we note that according to the Congressional Research Service, *the average taxpayer pays less than $500,000 in taxes throughout his or her entire lifetime*. A savings of a few million dollars a year, every year, which may seem insignificant to Washington policymakers, is hardly insignificant to that average American.

While each of us does not necessarily endorse each of these options, we believe they warrant strong consideration by the Administration if we are to have a comprehensive budget and reconciliation package.

## Sample Deficit Reduction Options List

**1. Impose 20% cap on indirect/overhead expenses for federal grants and prohibit certain dues, meals, trips and gifts.**

Federal agencies provide tens of thousands of grants to academic and other researchers. Universities typically require academicians to add so-called "indirect costs" to the grant, increasing the size of the grant request to federal agencies by 100% and more in some cases. These costs are attributed to everything from secretarial time spent preparing grants to a portion of library expenses attributable to use by researchers. By contrast, foundations and other non-public funding sources rarely pay more than 20% for indirect costs. Congressional investigators have also found substantial excesses in claims made for indirect costs, the most notable being the Stanford University case which led many universities to revise their claims (but did not impose any limitation on indirect costs as a percentage of the overall grant).

**Estimated Savings: $________**

2. **Mandate biennial review and recomputation of federal fees, rents, and require payment for provision of normal services by government agencies and offices.**

Congressmen Leon Panetta and George Miller initiated a General Accounting Office review of the appropriateness of fees charged by the U.S. for those utilizing the services of federal agencies and departments. The Departments of Interior and Commerce served as the targets of the initial inquiry. GAO found that many fees and other costs have not been revised in years, often decades, and no longer represent fair market value for the service provided. In many cases, departments and agencies are incapable of even delineating whether a fee is charged. There is no systematic process to assure periodic revision of fees to account for changing costs, and many departments lack even a centralized system for reviewing and accounting for fees. By way of a minor example, the Bureau of Land Management lost $26 million over a 5 year period by ignoring a statutory requirement to charge a user fee for processing applications for geophysical exploration on public lands or to charge fair market value for the use of lands for this exploration.

**Estimated Savings: $______**

3. **Require repayment of interest-free component for municipal and industrial water on timely basis, and increase interest rates to private sector equivalency.**

Water districts that benefit from a federally constructed water storage and delivery system often have two repayment obligations: one that is charged interest, and one that is interest-free. The Inspector General has found that districts generally pay the interest-bearing debt first, deferring the interest-free debt because they accrue no additional penalty for the delay. In addition, the interest rate charged for repayment should be revised, as it was set erroneously at 3.5% rather than 5.116%, according to the Inspector General. This alone would add more than $400 million to long term repayments by a single California district. Many other districts may enjoy a similar savings, at taxpayers' expense, because of the decision by an Interior assistant secretary to select the lower interest rate.

**Estimated Savings: $2.1 billion+.**

4. **Charge market value for grazing fee permits.**

Grazing permits on western federal lands are as little as one-fifth those charged on private lands. Only a very small number of ranchers benefit from this subsidy and many of them are large corporations. The fees not only fail to even recover the costs of the grazing program but also have grievous environmental impacts because of overgrazing, pollution from cattle, and denuding of lands, especially streams and streambanks. Many large holders of subsidized grazing permits (including foreign-owned companies) sublease their rights, making millions of dollars not shared by taxpayers who own the land in the first place. The House has voted to increase grazing fees on a number of occasions, but the fee formula is established by executive order and need not be legislated to achieve fair market value.

**Estimated 5 Year Savings: $975 million.**

5. **Eliminate third tier management at Bureau of Land Management.**

Recent congressional testimony indicated serious over-bureaucratization in BLM.

**Estimated 5 Year Savings: $250 million.**

6. **Consolidate mapping responsibilities in U.S. Geological Survey.**

Testimony of the USDOI-IG also criticized duplication in agency mapping functions. Relying on a single mapping agency -- the world-renowned USGS -- could eliminate duplication of personnel and expensive materials.

**Estimated Saving: $70 million.**

7. **Eliminate Unjustified Expenditures for Nuclear Energy R&D**

For over 30 years the commercial nuclear power industry has enjoyed large federal subsidies which are no longer justified. Government subsidies for certification and standardization of advanced reactor designs, and for demonstrations of the Early Site Permit process and nuclear license renewal process, could be largely eliminated, allowing private industry to pursue these technologies based on market considerations, rather than federal subsidies.

**Estimated 5-Year savings: $600 million.**

8. **Convert student loan guarantees to a direct loan program; recover through IRS.**

The Bradley-Miller initiative, which was not included in 1992's post-secondary education law, would have converted the current guaranteed loan program to a direct loan and expanded eligibility. Regardless of how eligibility and amounts are treated, elimination of the middle man saves substantial amounts of money. In addition, the Internal Revenue

Service should be utilized for repayment of the loan, improving accountability and tracking of loan recipients and reducing defaults.

**Estimated 5 Year Savings: $1.5 billion.**

9. **Impose minimum royalties and reasonable patent fees on hardrock mining production on public lands.**

Unlike current users of public water, oil, gas, and other resources, those who patent claims on hardrock minerals on public lands pay no royalties and only minimal fees. The source of the disparity is the 1872 Mining Law which has never been significantly amended. Its policy concerning royalties is clearly outdated, having been designed to encourage the settlement of the West. Over 3.2 million acres of land have been patented by private companies under this law. The law, which has been heavily attacked and the subject of many efforts at reform, has resulted in such anomalies as large resource companies acquiring billions of dollars in public minerals for only $2.50 an acre. According to GAO, $65 billion in resources remain on public lands awaiting development and as matters now stand, the public will receive virtually nothing from development of those assets.

**Estimated 5 Year Savings: $500 million**
(at 8% royalty)

10. **Mandate tighter collection of mineral royalties.**

A 1992 report of the House Interior Committee documented the continuing mismanagement of royalty collection and the substantial undercollection of funds owed taxpayers under existing laws and leases. These findings parallel many of the Linowes Commission in the early 1980s, which resulted in the creation of the Minerals Management Service (MMS), whose operations have been a source of continuing embarrassment and ineptitude.

**Estimated 5 Year Savings: $5 billion.**

11. **Aggressively implement BLM's drainage program**

The Bureau of Land Management has failed to aggressively implement its oil and gas drainage program. Federal and Indian lessees are supposed to protect their leased lands from loss of royalty revenue because the oil and gas is drained off the lands. There is currently a backlog of 25,000 cases. The potential loss of royalties ranges from $18 - $59 million annually.

**Estimated 5 Year Savings: Ranges from $74 million to $236 million.**

12. **Recover costs for processing permits for exploration on BLM lands.**

BLM does not recover costs for geophysical exploration on public lands, even though this is required by law.

**Estimated Savings: $5 million annually.**

13. **Phase out/end below cost timber sales.**

An estimated 50% of federal timber -- or timber on seven out of nine national forests -- is sold at prices lower than what it costs the government to conduct the sale and to build the roads to provide access to the timber. Losses from sales over the last 14 years are estimated to be $7 billion.

**Estimated 5 Year Savings: $260 million.**

14. **Reduce appropriations for, and administratively cancel two long-term timber contracts in, the Tongass National Forest (Alaska).**

The Tongass contracts, signed in the 1950's, provide timber at prices vastly below fair market value to two pulp mills, one of which is owned by a consortium of Japanese corporations.

**Estimated Savings: $30 million annually until the year 2011**

15. **Cancel Voice of America Transmission Tower in Israel**

The radio tower initially planned has been long-delayed and currently is unneeded given our access to Eastern Europe and other sites through alternative, cheaper means. The tower has been the subject of intensive protest and litigation within Israel because of allegations of substantial environmental impacts, particularly on bird migration.

**Estimated Saving: $ 250 million.**

16. **Modify National Park concessions contracts.**

The USDOI-IG has severely criticized concessions contracts for including "unreasonably low franchise fees." The IG estimates federal revenues losses of **$83 million** in the 1984-1988 period alone, and estimates the 1993 figure will be nearly **$24 million**. Other estimates of Federal revenue losses due to below-market rents range up to $250 million annually. Lower fees have been justified in the past by the concessionaires' promise of undertaking capital improvements, but these have generally not occurred.

**Estimated savings: up to $250 million annually.**

17. **Create a Commission to examine the structures, programs and functions of all federal agencies and departments, and to recommend specific measures to eliminate unnecessary or duplicative management and overhead, abolish outdated board and commissions, and integrate operations of various agencies and departments.**

As just one example of such redundancies, the Democratic Caucus Task Force on Government Waste pointed out that three different federal agencies have responsibility for catfish research. The Task Force report provides illustrative ways to streamline government, an initiative that should be adopted by the Democratic Administration both to reduce operational costs of government, and to illustrate that government has not been run like a business over the past dozen years.

**Estimated Long-Term Savings: $3-5 billion annually.**

18. **Require repayment of federal Power Marketing Administration debt to cover the government's true cost of providing power.**

Federal taxpayers subsidize the electricity rates charged by the federal Power Marketing Administrations (Bonneville Power Administration, Western Area Power Administration, Southeastern Power Administration, Alaska Power Administration and Southwestern Power Administration). This subsidy can be either reduced or eliminated through requiring a fixed repayment schedule and utilizing interest rates that reflect the actual federal cost of borrowing. Although this reform would significantly increase the cost of federally subsidized electricity, this power would still be one of the least expensive power sources available in the entire nation.

**Estimated 5-Year Savings: $1-2 billion.**

19. **Eliminate or restrict the use of subsidized federal irrigation water to produce certain crops.**

Irrigation water made available from Federal Bureau of Reclamation projects in the 17 Western States is used for the production of crops considered "surplus," by USDA, on 40% of Federally-irrigated cropland. This creates a "double subsidy", with Federally-subsidized water supplied by one agency being used to grow crops which have officially been declared to be in surplus by another agency. Financial support is provided by the USDA for not growing these crops. The **annual** "double subsidy" has been estimated by Bureau of

Reclamation economists at between $203 million and $830 million. This reform has passed the House of Representatives on several occasions.

**Estimated savings: $203-850 million annually.**

20. **Maximize National Park-National Forest Collection Fees**

The IG reports that the Park Service has neither initiated entrance fee programs at all national parks authorized to collect entrance fees nor maximized its fee collection program at parks presently charging such fees. Inadequate staff resources frequently result in unattended fee booths, or park concessioner employees being paid to collect fees. If the Park Service were to be more aggressive in collecting recreation and entrance fees, and estimated **$117 million** could have been collected in 1991. If legislative and other restrictions were removed from parks presently prevented from collecting fees, an additional **$151 million** would have been recovered. In addition, the Forest Service could charge nominal fees for a diverse number of recreational activities (fishing, camping, entrance) as many states now do. The potential for revenues from such a source is significant.

**Estimated Additional Revenue: $300 million+ annually.**

21. **Tighten criteria for federal land exchanges.**

The Department of the Interior often enters into land exchanges with private landholders for the purpose of acquiring highly desirable lands for a variety of purposes (park expansion, environmental protection, consolidation of holdings, etc.) Various investigations have demonstrated a gross lack of standardization in the valuation of lands offered for exchange, and frequent manipulation of valuation (particularly in Alaska) that benefits private owners at public expense. A standard mechanism must be developed to guide future exchanges and prevent the kinds of abuses that have cost taxpayers hundreds of millions of dollars, and resulted in the federal government acquiring ownership of marginally valuable or unusable lands.

**Estimated 5 Year Savings: $2.5 billion**

22. **Reduce the number of federal aircraft and tighten usage of remaining planes.**

The number of government owned or leased planes in the Executive Branch **doubled** to almost 1,400 in the 1980's. This fleet costs taxpayers about $750 million per year to operate and maintain. Civilian agencies also lease or charter about 5,000 more aircraft at an additional cost of at least $100 million annually. GAO has published a series of highly critical reports on aircraft purchase and use, and agency IG's have cited similar abuses including unnecessary travel, unjustified purchase or lease, inappropriate cost comparisons and lax oversight. The Administration could eliminate 50% of the planes in the government's fleet of agency/department non-military planes, require strict justification for remaining planes, impose greater OMB/GSA central management and control of planes, and tighten control over their use, encouraging use of commercial air travel.

**Est. 5 year Savings: $1-1.5 billion**

23. **Tighten controls on year end spending by all departments and agencies.**

Operating under a "use it or lose it" mentality, agencies and departments typically spend more in the last quarter of each fiscal year than the average for the first three quarters. Abuses are well-known and documented. The House Democratic Task Force on Government Waste, which reviewed this issue in its June 1992 report, revealed that "by some estimates, agencies spend 48% more in the final month of the fiscal year than was spent on average in the 11 previous months."

**Est. 5 year Savings: $500 million**

24. **Require all federal departments and agencies to use lower class (i.e., 3rd, 4th v. 1st) and/or other non-priority mail whenever possible, and to initiate other actions to reduce federal mail and delivery costs.**

The government spends conservatively $1.5 billion each year on mail and overnight and other special delivery costs. OMB recently directed agencies and departments to switch from penalty to commercial mail to ensure improved accountability over agency mailings and to increase use of certain postal service discount programs. Additional initiatives could save substantial amounts. For example, the Postal Service estimates that agencies spend $400 million per year on overnight service. Much of this is unnecessary. Switching to 2 day service cuts the cost in half.

**Estimated 5 year Savings: $.6-1.0 billion**

25. **Improve DOD inventory control and reduce new purchases of materials already in surplus stock.**

For over 20 years, GAO, defense auditing agencies and congressional committees have highlighted continuing problems concerning DOD's purchase of billions of dollars in goods when those same materials are already in surplus. According to the House Armed Services Committee, DOD recently reported it had about **$2 billion** in unneeded inventory and another **$9 billion** in excess inventory. ***GAO recently calculated DOD's excess inventory at more than $34 billion!*** GAO also recently found that DOD ***routinely*** purchases 10% more than it needs for its inventory.

**Estimated 5 year Savings: $12.5-20 billion***

(*Procurement and contracting reforms for all departments and agencies could substantially reduce savings further prohibiting payment for "employee morale expenses"; revising federal contractor indemnification policies; tightening restrictions on sole source contracting; improving compliance with the Brooks ADP Act; and requiring that contractor award fees are paid only upon satisfactory performance throughout the entire period of the contract.)

26. **Phase out Dependent Care Tax Credit for wealthiest families.**

The House approved, as part of the 1990 child care bill, a phase out of the DCTC for families earning in excess of $70,000 in adjusted gross income (AGI). The credit would have been eliminated for families with greater than $90,000 AGI. This change would concentrate child care benefits on lower and middle income working families. Only about 15% of eligible families would be affected by the phase out, and most would continue to receive some of the credit.

**Estimated 5 year Savings: $1 billion**

NRDC

Natural Resources
Defense Council

1350 New York Ave., N.W.
Washington, DC 20005
202 783-7800
Fax 202 783-5917

**MEMORANDUM**

TO: Katie McGinty

FROM: Daniel Lashof DL

DATE: February 8, 1993

RE: Green Energy Taxes

**PHOTOCOPY PRESERVATION**

---

We had a useful meeting with Roger Altman this morning. Attached is a follow-up memo that should also be useful to you.

Nelson Hay and Mike German of AGA would like to set up a joint NRDC-AGA meeting with you. They have done some analysis of carbon-tilted taxes that should be useful. Please let me know if ~~this can be~~ arranged.

URGENT

- Get to Chip Ka
- ask Greg when next discussion of this is happening KM

Natural Resources Defense Council

1350 New York Ave., N.W.
Washington, DC 20005
202 783-7800
Fax 202 783-5917



# MEMORANDUM

TO: Roger Altman, Deputy Secretary
Department of the Treasury

FROM: Daniel Lashof, Senior Scientist
Natural Resources Defense Council

DL

DATE: February 8, 1993

RE: Green Energy Taxes

---

Thank you for taking time to meet with us this morning. As we said, the environmental community is prepared to work hard for the President's budget package. Our ability to mobilize public support for any energy tax will depend on the extent of the environmental benefits that it will produce. By opting for a pollution-based energy tax you can take your message directly to the public: You will be doing the right thing for the country and the planet despite the opposition of inside-the-beltway energy industry lobbyists.

I thought it would be useful to illustrate several options for expressing pollution-oriented taxes on a BTU basis. The attached table illustrates a range of tax structures running from a pure BTU formulation to a pure carbon tax formulation. The tax structure becomes progressively more environmental as you move toward the right. In each case the rates are set to raise \$50 billion per year in gross revenue when fully phased in.[1]

Recognizing the political difficulties that a pure carbon tax would face in the Senate, I believe that a "BTU tax with pollution adjustments" has both political and environmental advantages of a pure BTU tax. Although taking this approach is likely to engender a debate about the form and size of the pollution adjustment, that is preferable to debating the merits of the energy tax itself.

---

[1] Based on 1990 energy consumption as reported on a BTU basis in Annual Energy Outlook 1993 (DOE/EIA-0383). The BTU charge for hydropower is calculated at a rate of 10,000 BTU/kWh primary energy equivalent.

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Los Angeles, CA 90014
213 892-1500
Fax 213 629-5389

212 Merchant St., Suite 203
Honolulu, Hawai'i 96813
808 533-1075
Fax 808 521-6841

A clean-fuel credit for natural gas or a pollution surcharge for coal and oil can be defended in general on externality grounds.[1] Renewables, other than hydropower, should be exempt. We recommend that any pollution surcharge be combined into a single effective tax rate, as indicated on the attachment, in order to prevent the pollution component from being pulled off before enactment. We also recommend that tax rates be indexed for inflation at the end of any predetermined phase-in schedule.

An ad valorem tax is much more problematic than any of the BTU-based options. At the retail level and ad valorem tax is the most visible and least popular form of energy tax (according to the Business Week poll). If applied to producer prices an ad valorem tax could favor coal and increase pollution.

[1] Externality values for coal and oil have been estimated as $2.46-$5.76 and $1.87-$6.48, respectively, per Million BTU of energy input to electric utilities compared to $0.78-$0.95 per Million BTU for natural gas. (R. Ottinger, et al., Environmental Costs of Electricity, 1990).

## EFFECTIVE TAX RATES IN DOLLARS PER MILLION BTU BASED ON ENERGY TAX REVENUES OF $50 BILLION PER YEAR

| | BTU | BTU WITH CLEAN-FUEL CREDIT | | BTU-CARBON HYBRID | | CARBON |
|---|---|---|---|---|---|---|
| | | 15%[1] | 25%[2] | 75%:25%[3] | 50%:50%[4] | |
| Natural Gas | 0.62 | 0.54 | 0.49 | 0.60 | 0.57 | 0.53 |
| Petroleum | 0.62 | 0.64 | 0.66 | 0.63 | 0.63 | 0.65 |
| Coal | 0.62 | 0.64 | 0.66 | 0.70 | 0.78 | 0.95 |
| Nuclear | 0.62 | 0.64 | 0.66 | 0.47 | 0.31 | 0.00 |
| Hydro | 0.62 | 0.64 | 0.66 | 0.47 | 0.31 | 0.00 |

| | BTU WITH POLLUTION SURCHARGE | |
|---|---|---|
| | 15%[5] | 25%[6] |
| Natural Gas | 0.56 | 0.53 |
| Petroleum | 0.65 | 0.66 |
| Coal | 0.65 | 0.66 |
| Nuclear | 0.56 | 0.53 |
| Hydro | 0.56 | 0.53 |

[1] The tax rate applied to natural gas is reduced by 15% to reflect a clean fuel credit.

[2] The tax rate applied to natural gas is reduced by 25% to reflect a clean fuel credit.

[3] Tax rate is based 75% on BTU content and 25% on carbon content.

[4] Tax rate is based 50% on BTU content and 50% on carbon content.

[5] A 15% pollution/energy-security surcharge is applied to the tax rate for coal and oil.

[6] A 25% pollution/energy-security surcharge is applied to the tax rate for coal and oil.